Economic and financial *outlook*

summer 2008

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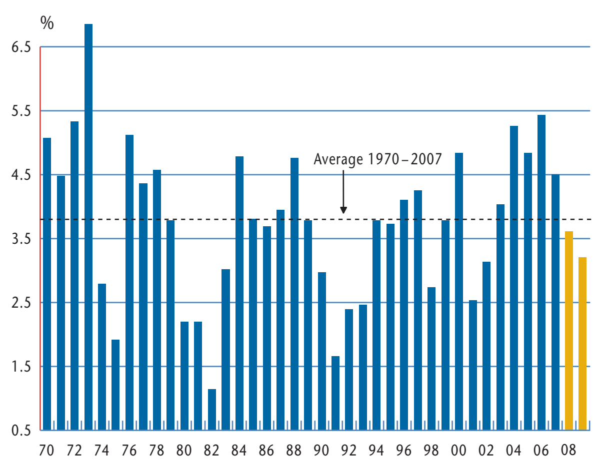
Slower growth in the world economy

Because of the rapid expansion of emerging countries like China and India, in 2007 the world economy once again posted GDP growth in the order of 5%, well above its historical trend. But in 2008, these economies will not be able to offset the effects of higher world food and energy prices and a slowdown among the G7 countries, including a moderate recession in the United States. For the first time in six years, expected growth in the world economy, at 3.6%, is below its long-term trend. In the U.S., the persistent slump of the real estate sector, tighter credit conditions, and higher energy prices got the better of domestic demand in the first quarter of 2008. A recession is probably setting in. However, it should be short-lived, given the vigorous measures taken by the authorities. Although Canada is not immune to the downswing south of the border, it should manage to do well because of resource sector development, an improvement in the terms of trade, and a stimulating fiscal policy. However, regional disparities will persist over the forecast horizon.

OVERVIEW

In 2007, the world economy's GDP looks to have recorded an increase of around 5% for the fourth straight year. Due mainly to shockwaves from the U.S. real estate meltdown, the financial crisis, and higher world prices for food and energy, growth is likely to be less spectacular going forward: in the order of 3.6% in 2008 and 3.2% in 2009.

END OF ABOVE-TREND GROWTH
WORLD REAL GDP GROWTH



Sources: NBC Economic Research, IMF

The high economic growth rate that will persist in emerging Asia, especially **China** and **India**, will not totally make up for an economic slowdown in the G7, including a moderate recession in the U.S., particularly with the threat of higher prices for food and energy. In this world context, the economy of **Japan** is particularly vulnerable. **Europe** is suffering the after-effects of the financial crisis, and some countries could experience real estate deflation.

In the **United States**, collateral damage from the upheaval in the real estate sector, the financial crisis, and the increase in energy prices is becoming more and more apparent. Households have had their morale seriously shaken. In the first quarter of 2008, the first decline in domestic demand since 1991 will lead to a recession. However, it will be a moderate one because of the vigorous measures taken by the various authorities, combined with the improvement in external trade.

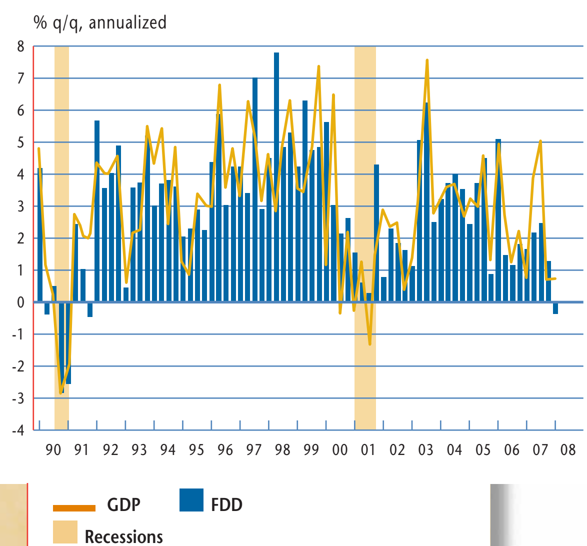
Canada will not be immune to the U.S. slowdown, but a recession is unlikely because of the strength of domestic demand, the vigorous labour market, resource sector development, and the improvement in the terms of trade. Public finances are healthy, which gives the authorities some room to manoeuvre if they need it. The economy should grow by 1.4% in 2008, although this figure masks large regional disparities due to uneven distribution of natural resources.

UNITED STATES

- ***As a result of the heavy contagion effects in the rest of the economy caused by the collapse of the real estate bubble and the financial crisis, the U.S. economy will not avert a recession in 2008.***
- ***With households running on low, a consumer cycle akin to that of the 1991 recession can be expected.***
- ***However, thanks to the aggressive response of monetary, budget, and regulatory authorities, the downturn should be moderate and short-lived. Under our base scenario, economic activity should grow by 1.2% in 2008.***
- ***Owing to a probable contraction in economic activity and the government's multiple budget stimulus measures, the public finance deficit should register a marked deterioration in 2008.***
- ***Further depreciation of the greenback against currencies other than those of the Asian countries seems less and less necessary, given that the current account deficit is improving and most of the monetary easing is likely behind us.***
- ***Although the United States will be back on the growth track next year, the pace is likely to fall short of its speed limit. Consequently, we can expect a rather slow recovery in 2009, with growth in the order of 1.6%.***

FIRST FINAL DOMESTIC DEMAND CONTRACTION IN 16 YEARS

REAL GDP AND FINAL DOMESTIC DEMAND (FDD)



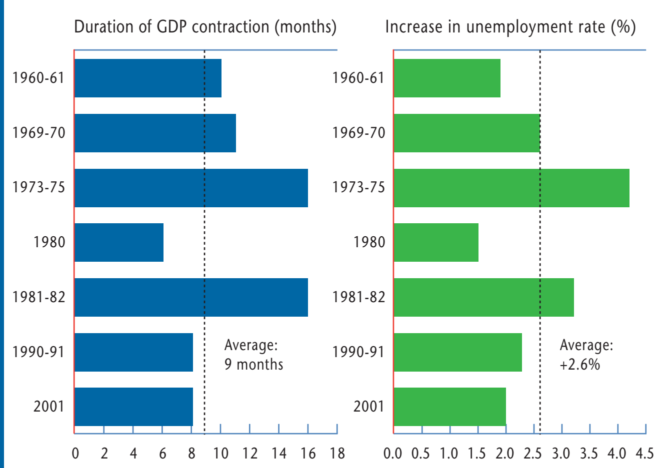
Sources: NBC Economic Research, BEA

"Moderate" recession under way

Reports on the U.S. economy are growing worse. The collapse of the real estate bubble, which has persisted for several quarters, and the ensuing financial crisis are now contaminating the rest of the economy. Indeed, one by one, the domestic engines that had been propelling growth are now letting the U.S. economy down.

In the first quarter of 2008, aside from the continuation of the severe contraction in the housing sector, business investment in machinery and equipment, too, pulled back, while non-residential construction stagnated. As a consequence, final domestic demand shrank in the first quarter of 2008, an occurrence last witnessed during the 1991 recession.

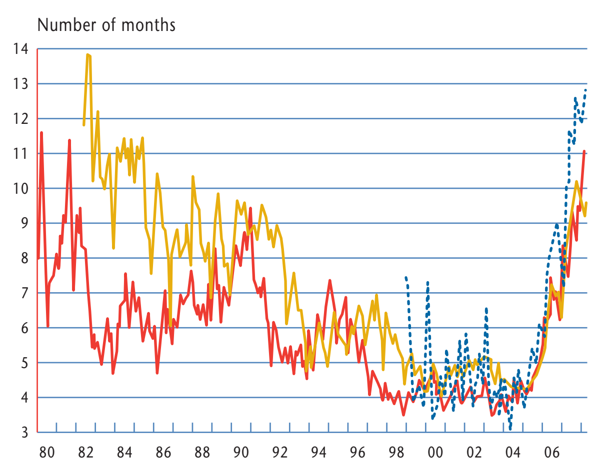
RECESSIONS LAST LESS THAN ONE YEAR ON AVERAGE



Sources: NBC Economic Research, BEA

INVENTORY OF UNSOLD HOMES

MONTHS' SUPPLY OF UNSOLD HOMES AT CURRENT SALES RATE



Sources: NBC Economic Research, Global Insight

U.S. households have seen their financial situation deteriorate noticeably in the wake of falling home values, mounting energy and food prices, and the past increase in debt. In 2008, a contraction of consumption expenses, akin to the one observed during the 1991 recession, is expected. Foreign trade is one of the few sectors still sustaining the economy. In these circumstances, the United States will have a great deal of difficulty avoiding a recession.

It is worth remembering, however, that recession is a normal cyclical phenomenon serving to purge the economy of excesses or imbalances that arise during the expansion phase. There have been seven recessions in the United States in the past 50 years. Some comfort can perhaps be drawn from the fact that these have generally been short-lived, lasting about nine months on average.

The U.S. economy will not avert a recession this year. However, headwinds should die down along the way and the measures taken by the various authorities since the end of last year should begin to bear fruit. Consequently, the recession south of the border should be of moderate intensity and last no more than eight to ten months.

Housing sector still at an impasse

The housing sector continues to exert considerable drag on real economic growth. The bursting of the real estate bubble has led to poor results in this sector for nine quarters running, the longest stretch of its kind since 1960.

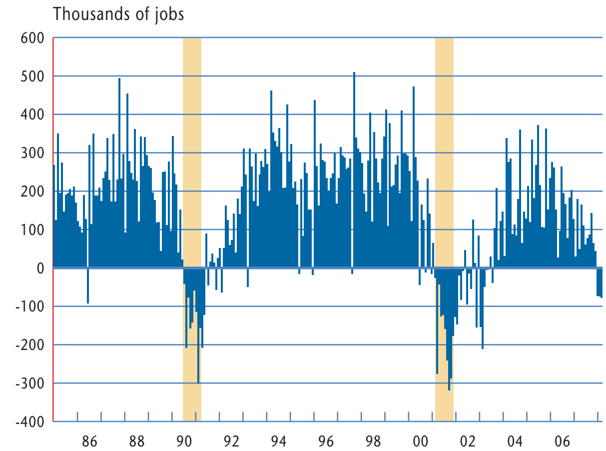
In this regard, the U.S. economy has seen housing demand crumble. Aggregate demand, that is, total sales of existing homes, new homes, and condominiums, has fallen dramatically by about three million units since peaking in 2005.

In the midst of this turmoil, home builders have been dealt a heavy blow. Indeed, housing starts have dropped by approximately 60% from a high of 2.3 million units to a mere 1 million or so at present. This is a necessary evil, however, as the housing sector is in dire need of restructuring. Despite a sharp decline in construction activity, the unsold inventory has so far diminished only slightly. New homes and condominiums have even set a new high recently in terms of months' supply at the present sales rate. In short, there is a persistent glut of homes on the market.

The spectacular surge in home prices has given way to a particularly worrisome deflation of the net tangible wealth of U.S. households. In fact, the downtrend in home prices has even steepened recently. Since peaking, the median price of existing homes has fallen by about 16% in nominal terms and by more than 20% in real terms. The ratio of existing-home median price to median household income has sunk from a high point of about 4 to its present level of 3.3. However sharp its descent to date, the ratio has apparently still not come down enough to improve matters sufficiently where housing affordability is concerned. Hence, the already impressive deflation in home prices does not yet seem to have run its course.

In such an environment, it would be unreasonable to expect residential housing demand to bounce back significantly this year. The conditions needed for a sustained recovery in the sector are still far from converging. With problems persisting over the coming quarters, the housing sector is not likely to turn around decisively before the second half of 2009.

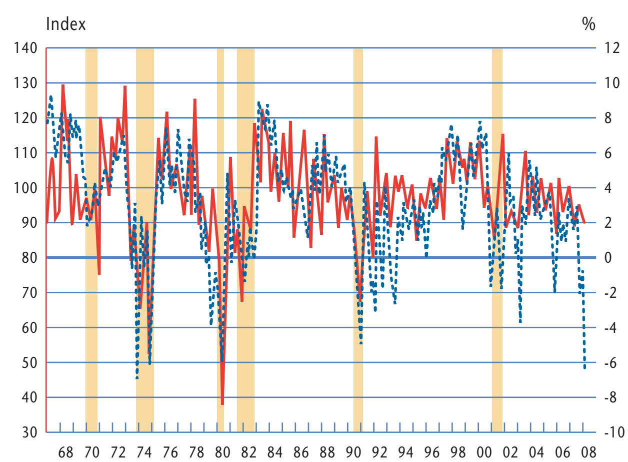
JOB LOSSES CROPPING UP
MONTHLY CHANGE IN EMPLOYMENT



Recessions

Sources: NBC Economic Research, Global Insight

CONSUMER CONFIDENCE RATTLED
CONFERENCE BOARD CONSUMER CONFIDENCE INDEX AND RETAIL SALES BY VOLUME



Consumer confidence expectations component (L)

Volume retail sales (R)

Recessions

Sources: NBC Economic Research, Conference Board

U.S. households beginning to worry

The housing crisis and its ripple effects have finally gotten the better of the U.S. job market. Initial unemployment insurance claims have continued their upward trend, and have now reached the critical threshold normally associated with periods of recession. This indicates that the job market is suffering a reversal. Private businesses have begun downsizing, with a total of 250,000 jobs trimmed so far this year.

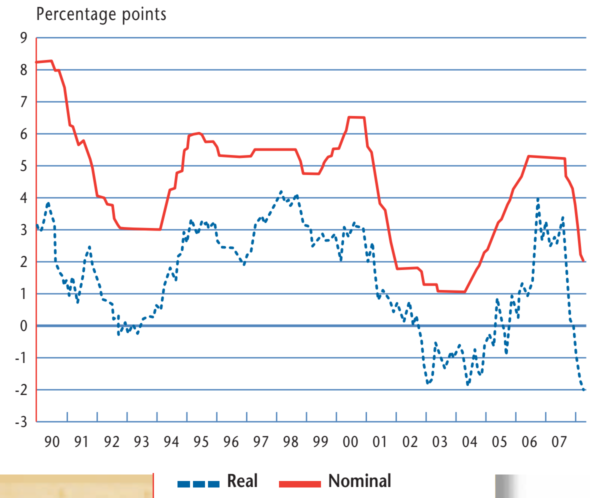
With employment staggering, energy prices escalating, and the real estate debacle persisting, the fonts of consumer spending growth are quickly drying up. Not counting episodes of strong wealth effects, real consumer spending growth has historically been contingent on the employment situation. The downturn in the job market, therefore, makes one fear the worst for household consumption.

Furthermore, morale among U.S. households is not holding up very well, to say the least. No doubt owing to the first decline in home prices since the Great Depression of the 1930s, households have rarely been as depressed as they are at the moment. Historically, such a low confidence level has coincided with a major contraction in consumer spending growth. With households more in debt than ever, a consumer recession is looming over the United States this year. Given that wage growth is not keeping pace with fast-rising food and energy bills, U.S. households will begin to feel the pinch as more jobs are lost and the housing sector continues to deflate. Indeed, consumer spending rose only 1%, annualized, in the first quarter of 2008.

In the face of a serious slowdown in economic activity, the unemployment rate is on its way up, and has reached the 5% mark. Under the moderate recession scenario for 2008, the unemployment rate can be expected to climb further, to about 6% by year-end.

MEGADOSE OF MONETARY STIMULUS

REAL AND NOMINAL FEDERAL FUNDS RATE



Sources: NBC Economic Research, Federal Reserve, Global Insight

Federal Reserve sparing no effort

The Federal Reserve has recently demonstrated firm resolve by implementing one of the swiftest rounds of monetary easing measures in its history. From a peak of 5.25% late last summer, the U.S. monetary authority's official rate was slashed by 325 basis points to 2.00% within a mere eight months.

Factoring in recent inflation, the Federal Reserve's monetary policy has sunk deep into expansionist territory. The U.S. monetary authority's real key rate is currently 200 basis points below 0, the same point it was at shortly after the last recession in 2001. In other words, the monetary floodgates have been swung wide open as far as the Fed's intervention rate goes.

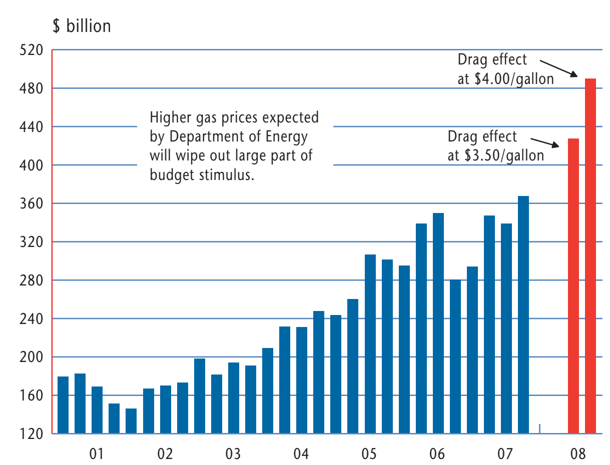
However, a radical relaxation of interest rates does not address the non-traditional problems of suspicion and financial re-intermediation. This is why the Federal Reserve has implemented a series of unconventional measures aimed at restoring financial market liquidity in the hope of bringing down risk premiums. Among other things, the U.S. monetary authority has set up a colossal $200 billion program for the purpose of extending loans to brokerage firms using mortgage-backed securities as collateral.

On the other hand, aware of the risk presented by an overly accommodating monetary policy in the presence of a relatively high inflation rate (around 4%), the Federal Reserve has recently warned the financial markets that it would stand on the sidelines for a while. The monetary authority will probably want to gauge the impact on the real economy of both its own recent measures and those of government authorities before rushing to any conclusions. Also, the Federal Reserve has expressed its concerns about the inflationist impact of a weak U.S. dollar.

That said, cutting interest rates may not prove as effective as in previous cycles. To date, mortgage rates have reacted rather timidly to the monetary easing, and credit access is currently being restricted by lending institutions, which are operating a credit squeeze that is among the tightest in U.S. history.

BUDGET STIMULUS SPENT AT PUMPS?

AMOUNT OF TOTAL HOUSEHOLD BUDGET SPENT ON GAS



Sources: NBC Economy and Strategy (BEA data via Global Insight)

Given the persistence of certain risk premiums in the financial markets, the monetary policy transmission lag may turn out to be longer than usual. The U.S. monetary authority may well have to keep interest rates low for quite a while to give monetary transmission channels the chance to work properly.

As in every recession, a gap will appear and widen during 2008 between the real economy and its full potential. The result will be excess supply in the United States. Under the circumstances, and assuming that global demand for raw materials will soften, inflation should lose ground over the course of the year.

Budget policy to the rescue as well

Acknowledging the gravity of the situation, budget authorities have come to the aid of the Federal Reserve. The U.S. Congress voted a few months back to adopt stimulus measures amounting to some $160 billion or about 1.5% of GDP.

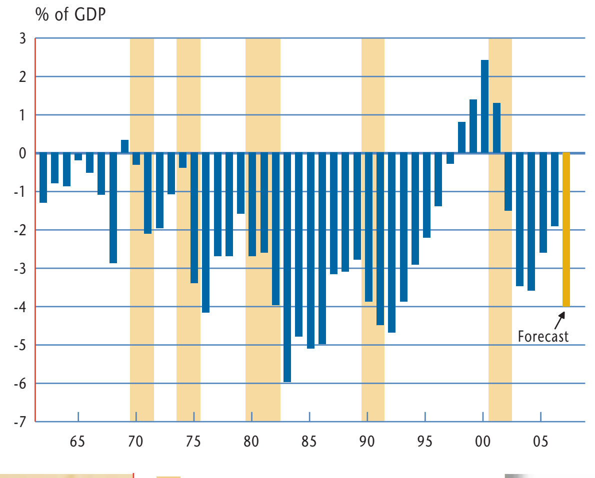
Where households are concerned, tax rebates have been authorized in the order of approximately 1% of total consumer expenditures. Households began receiving tax rebate cheques in early May. Roughly speaking, amounts vary from $600 to $1200 per household.

Similar measures were passed in 1975 (0.8% of GDP), in 2001 (0.5% of GDP), and in 2003 (0.2% of GDP). History shows that about 40% of such tax rebates are ultimately allocated to consumption, with the rest going toward household savings or debt repayment. In today's context, however, a more modest impact on consumer spending can reasonably be expected.

The latest surge in oil and food prices since January could well bleed households of a good portion of their purchasing power and counteract the efforts of U.S. authorities to stimulate the economy. If we assume that gas prices will average $4/gallon in the United States over the summer, nearly all of the tax stimulus earmarked for

FISCAL MEASURES TO THE RESCUE

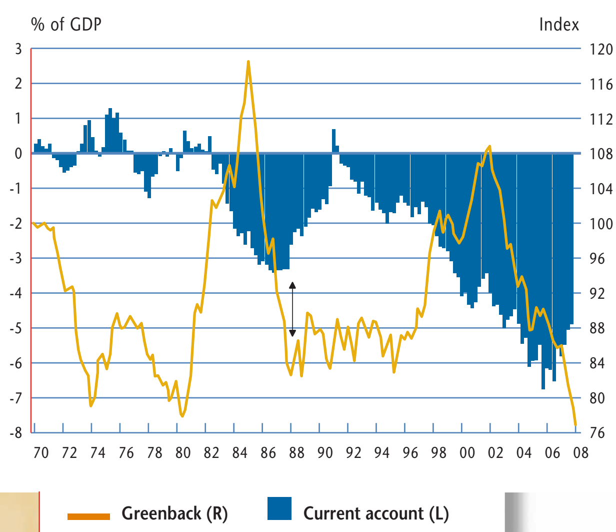
BUDGET BALANCE AS % OF GDP



Sources: NBC Economic Research, CBO

SHARP TURNAROUND IN CURRENT ACCOUNT BALANCE

CURRENT ACCOUNT AS % OF GDP AND REAL TRADE-WEIGHTED USD



Sources: NBC Economic Research, Global Insight

households will flow down this drain. Consequently, given the heavy debt load of U.S. households and the steep decline in home prices – a first-time occurrence with a budget stimulus – the effects of these tax rebates are likely to prove rather ephemeral. In sum, while the budget stimulus measures may attenuate the severity of the recession, they will not be sufficiently effective to avert it.

The U.S. budget deficit normally swells by almost 2 percentage points of GDP in recessionary periods. Considering the anticipated economic downturn and the government's multiple budget stimulus measures, we can expect the budget deficit to worsen noticeably in the United States in 2008. After registering a marked improvement in recent years, the budget deficit is very likely to reach the unenviable mark of 4% of GDP in 2008, a first since the 1990-1991 recession.

Has the greenback's bearish run come to a halt?

The prospect of a recession and the narrowing of interest rate spreads for quite some time have played havoc with the U.S. dollar since last fall. If we consider the United States' broad spectrum of trading partners, the greenback has today sunk to a low, in real terms, not visited since 1970. Although the current bear cycle is akin to the great devaluation of the mid-1980s in degree, it has taken nearly twice the time to cover the same distance.

The U.S. dollar drop of 30% from its 2002 peak, combined with the weakness of U.S. domestic demand, has managed to generate a significant improvement in the U.S. foreign trade deficit. From a high of 6.8% of GDP recorded in late 2005, the current account deficit has now fallen to less than 5%. This positive trend should continue in 2008, as U.S. demand is expected to soften further in a period of recession.

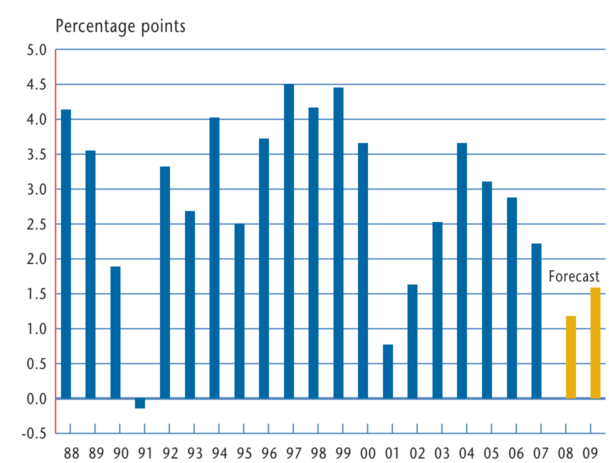
Certain currencies have been more involved than others in the greenback's six-years-plus of depreciation. This is certainly the case for the euro, the currency that has gained the most against the U.S. dollar since February 2002. The IMF is predicting that the euro's appreciation will now affect the euro-zone economy's foreign position. Like the United States, the euro zone will probably post a current account deficit in 2008. What's more, the IMF is predicting a current account deficit for next year that could reach as high as 0.9% of the euro zone's GDP.

In this context, a further substantial depreciation of the greenback seems less and less necessary. In the 1980s, the U.S. dollar completed its downslide before the ratio of current account deficit to GDP had registered any improvement. Thereafter, declining imports were the factor responsible for reducing the foreign trade deficit. In the present context, where most of the monetary easing by the Fed seems to be behind us, we cannot rule out the possiblity that the greenback's bearish cycle might be over, at least against certain currencies.

On the other hand, the stage is still set in 2008 for the greenback to lose even more ground to the currencies of a fair number of Asian countries, which continue to post gigantic current account surpluses and which have yet to do their share to correct global imbalances.

RECESSION IN 2008 AND SLOW RECOVERY IN 2009

ANNUAL GDP GROWTH AND FORECASTS



Sources: NBC Economic Research, Global Insight

Forecasts

As a result of the heavy collateral damage caused to the rest of the economy by the collapse of the real estate bubble, the U.S. economy will not avert a recession in 2008. However, thanks to the aggressive response of monetary, budget, and regulatory authorities, the economic downturn should be moderate and relatively short-lived. Under our base scenario, economic activity should grow by no more than 1.2% in 2008.

Given that monetary policy may not be effective in remedying the housing sector crisis, chances are that the U.S. economy will rebound only slightly in 2009. Although the United States should be back on the growth track next year, the pace is likely to fall short of its speed limit. Consequently, we can expect a rather slow recovery in 2009, with growth in the order of 1.6%.

- ***Emerging Asia will remain the global economy's driver of growth in 2008 and 2009. However, the global economy will be in for a rougher landing as it is buffeted by the spillover effects of a downturn in the United States and a sharp rise in world energy and food prices.***
- ***The euro-zone economy should cool in the face of tightened credit conditions and likely real estate downturns in several countries.***
- ***As domestic demand will not be able to compensate for lower export growth, Japanese activity, in the absence of any real macroeconomic stimulus tools, should advance rather haltingly this year.***
- ***Consequently, after recording its strongest sequential increase in nearly 40 years, the global economy will likely grow by no more than a modest 3.6% in 2008 and by an even meeker 3.2% in 2009, for a stretch of two consecutive years below trend.***

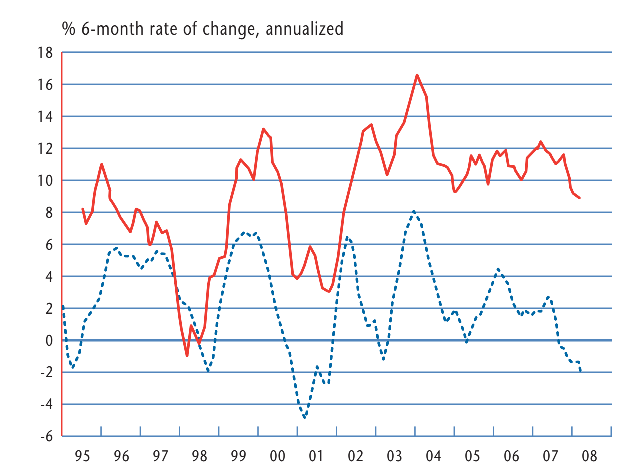
First below-trend growth in six years

In its latest World Economic Outlook report, the International Monetary Fund (IMF) predicted less sparkling growth in 2008, revising its forecasts down considerably from 4.8% last October to under 4% for the first time in six years. Going further, the IMF warned that chances were now one-in-four of seeing world economic growth drop below the global recession threshold of 3%.

There is no denying that the leading economic indicators point towards harder times for economic growth. The OECD leading economic indicators have already begun to wane. Moreover, although the BRIC economies (Brazil, Russia, India, China) continue to progress at a brisk pace, the leading indicators for these countries are presently at their lowest ebb since 2002. Combining the two indexes, the leading indicator is currently advancing at less than 1% worldwide.

OECD'S CLI HERALDS CONTRACTION

COMPOSITE LEADING INDICATOR: OECD AND BRIC

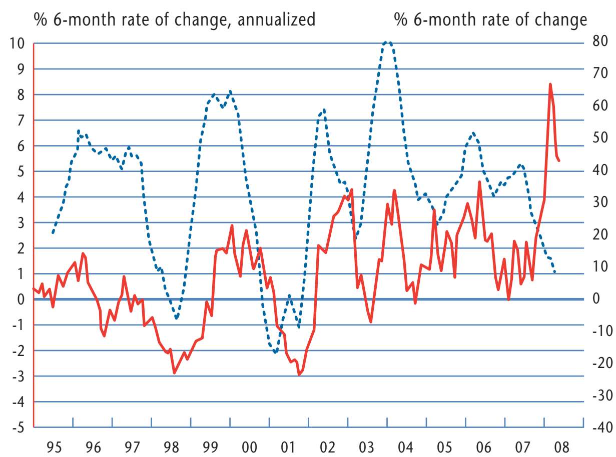


OECD BRIC

Sources: NBC Economic Research, OECD

GLOBAL ECONOMY LOSING THRUST

GLOBAL CLI* AND CRB FUTURES INDEX



* Weighting 70% OECD and 30% BRIC

CRB (R) Global CLI (L)

Sources: NBC Economic Research, OECD, CRB

To date, the repercussions of the U.S. downturn and the financial crisis have been more pronounced in the G7 industrialized nations. The spillover effects of international trade have so far been more evident among the advanced economies that trade more heavily with the United States. Still, a moderate U.S. recession is likely to have a noticeable impact on the rest of the world as well. While it is true that emerging countries are now less dependent than they used to be on the business cycles of the developed countries, spillover effects associated with the heightened integration of the global economy have certainly not been eliminated. Hence, world trade can be expected to continue to deteriorate in future.

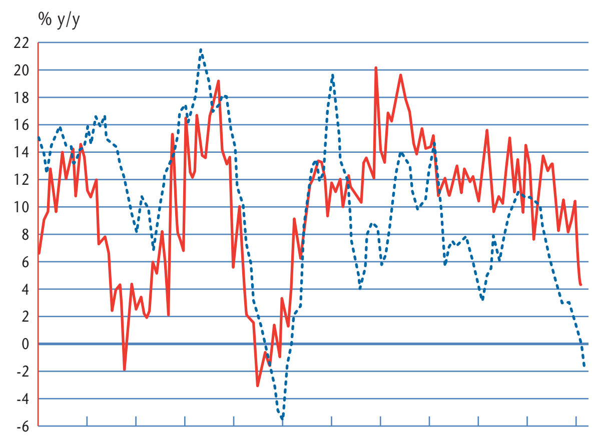
Furthermore, soaring world energy and food prices will have great influence on growth scenarios. A United Nations report indicated that, for the first time in history, more than half of the world's population would be living in urban centres in 2008, versus only 36% during the food shortages of the 1970s. In the developing countries, city-dwellers accounted for 25% of the population at that time, compared with 45% today. The proportion of spending on food in many countries with low per-capita income will swell substantially this year. Combined with the steep increase in energy prices, food inflation will be high enough to bring about a notable deceleration in global economic activity.

Certain central banks have sought to counter the economic downturn by lowering their key rates. However, global monetary policy alone will not manage to avert a substantial reduction in the pace of activity. We can expect the slowdown to be sufficiently pronounced to cause world demand for raw materials to soften. This normally has an impact on prices, with corrections in the order of 25% to 40% having been observed historically. Hence, many commodities could see their prices decline in 2008, particularly copper and crude oil.

After recording its strongest sequential increase in nearly 40 years, the global economy has, in 2008, entered what will probably turn into a major slowdown. The present environment should allow modest growth of 3.6% this year and an even more pedestrian 3.2% in 2009. Thus, world economic growth should plod forward at below trend for two years in a row.

SPILLOVER EFFECTS IN SIGHT

U.S. CONSUMER GOODS IMPORTS (VOLUME*) AND WORLDWIDE EXPORTS OF NON-INDUSTRIALIZED COUNTRIES, (VOLUME)



* 3-month moving average

U.S. consumer goods imports (volume)

Exports of non-industrialized countries (volume)

Sources: NBC Economic Research, Global Insight, BEPA

Emerging Asia impervious?

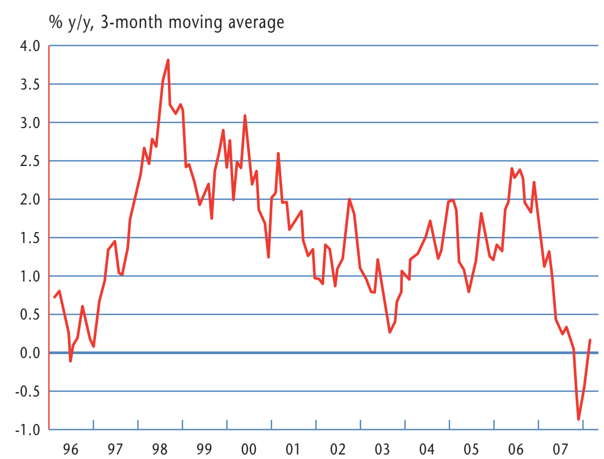
The growth prospects for emerging countries, especially in Asia, will be contingent upon the resilience of their financial systems and the spillover effects of the slowdown experienced by the advanced economies. In recent years, the relative importance of the emerging economies in world trade has increased enormously. What's more, the very structure of world trade has also changed. Nearly half of the exports from emerging and developing economies now ship to other countries in the same economic position, with intra-regional trade in emerging Asia leading the way. Consequently, the business cycle of the developed economies could have less impact than before on the business cycle of the emerging countries.

However, these spillover effects have not been completely eliminated. Moreover, while these trade ripples tend to be slight in times of mere slowdowns, they can be much more devastating during periods of recession. As China accounts for 10.8% of the global economy and India for 4.6%, this tandem represents less than 15.5% of world GDP, compared with 21.4% for the United States. Therefore, the capacity of the emerging Asian economies to offset a reduction in U.S. demand is not guaranteed. China and India alone cannot compensate for a G7 slowdown, including a moderate U.S. recession, unless their own growth picks up tremendously. Such a scenario is highly unlikely under present conditions, where almost 40% of Chinese real GDP is exported and half of these exports are bound directly for the G7.

In addition, the resurgence of food inflation poses a not insignificant threat to the business cycles of China and India. Indeed, this inflation has risen more sharply there than in the industrialized countries because of the higher relative weight of food expenditures. Given that food adds up on average to 45% of consumer spending for Indian households and no less than 35% for their Chinese counterparts, inflation control represents the key to sustained growth in both China and India. There is no

EURO ZONE: DOMESTIC DEMAND FALTERING

EURO-ZONE RETAIL SALES (VOLUME)



Sources: NBC Economic Research, Datastream

debating that monetary authorities will need to allow their currencies to appreciate further in a bid to alleviate the inflationary pressures exerted by food and energy.

Emerging Asia will remain the uncontested driver of global economic growth in the near future. However, it is hard to imagine a clean split between developed and emerging economies. Consequently, the decoupling theory to the effect that the Asian economies are increasingly divergent from the U.S. economy is likely to be severely tested in 2008.

Euro zone: ECB not budging

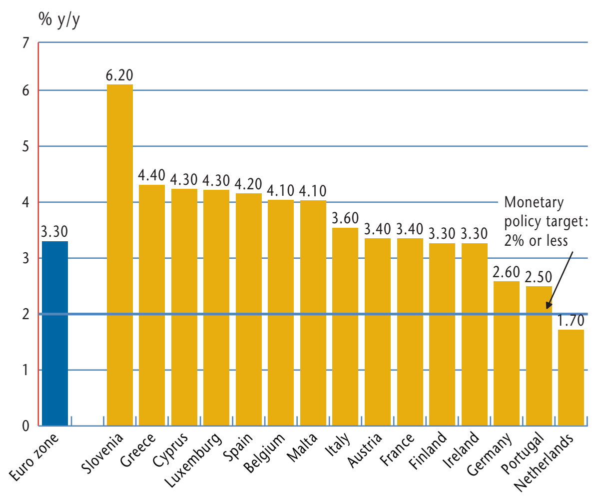
In 2007, the euro zone as a whole posted solid economic growth of 2.6%, a rate above its speed limit. A 0.7% (non-annualized) rebound in growth was also registered in the first quarter of 2008, following an excellent performance by Germany. At present, year-over-year growth for the euro zone as a whole stands at 2.2%.

However, several factors suggest that the first-quarter rebound will not last. The European banks have suffered huge losses from U.S. asset-backed securities. Direct exposure to subprime-mortgage securities has tied up bank capital in many European countries, forcing lending institutions to adjust their balance sheets. As a result, the United States is not the only place where credit conditions have been tightened and risk premiums have emerged. Real economic activity in the euro zone, too, will feel the effects of the credit crunch this year.

According to the IMF, several euro-zone countries are also liable to see a home price correction in 2008. After a long bull run, prices remain much higher than fundamentals warrant. This is especially true in Ireland, the Netherlands, France, Belgium, and Spain, where there is some fear that this situation could jeopardize consumer spending growth.

INFLATION: EURO-ZONE SPECTRUM

INFLATION PER EURO-ZONE COUNTRY (TOTAL CPI)



Sources: NBC Economic Research, Datastream

At the regional level, Germany, which accounts for about 33% of the zone's activity, has fared better than most euro zone countries, and has proved rather resilient to date against the global slowdown. While traditional trade with the United States remains significant, external trade with emerging Asia, emerging Europe, and the Middle East is growing in importance, and is helping Germany to compensate for listlessness elsewhere in the zone along a north-south divide. Indeed, economic activity has already deteriorated markedly for Italy and Spain in 2008. These two economies will probably register growth well short of their speed limit, with Italy facing a real risk of slipping into recession this year.

Although growth in the first quarter exceeded expectations for the zone as a whole, several indicators are nevertheless pointing towards a downturn in 2008. In this regard, the zone's manufacturing sector has begun to feel the effects of the euro's past appreciation and the global economic slowdown. The sector's year-over-year growth has fallen to 2% and is still sinking. Retail sales are now down by 1.6% year over year, and consumer confidence is crumbling, which bodes ill for the manufacturing sector. In addition, soft U.S. consumer spending is likely to affect Chinese producers and, in turn, the German manufacturing sector, which counts China among its top machinery importers.

Unlike other central banks, the ECB has left its key rate untouched since the heavy financial turbulence that began last August. However, like the Federal Reserve, it has had to inject liquidity into the monetary market in order to bring down short-term rates. With the official rate at 4%, the spread between Europe and the United States now stands at 200 basis points, a huge difference by historical standards.

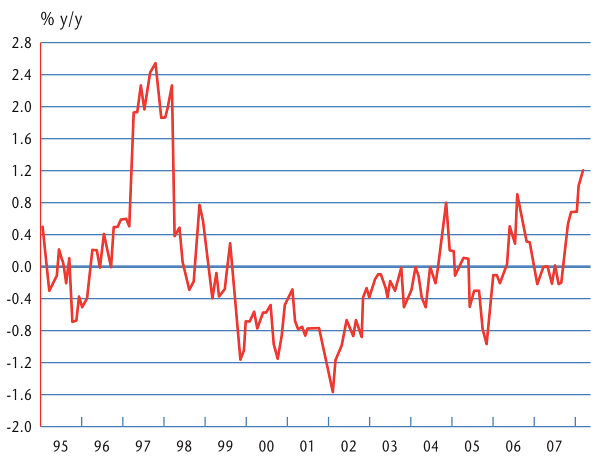
It need be said that inflation in the euro zone has picked up since last summer, thus rendering a rate cut harder to justify, especially in light of the economic upswing recorded in the first quarter. At 3.3%, the inflation rate remains much too high in the eyes of the ECB, whose inflation target is 2% or less. Moreover, the European monetary authority is expressing growing concern over second-round effects on wages. The ECB feels that recent salary increases have been overly generous and pose a serious threat in terms of inflationary pressure.

Though inflation is presently too high, it should diminish as commodity prices correct and the economic slowdown takes pressure off prices. Inflation should peak in the first half of 2008. The prospects of a slowdown affecting the manufacturing sector and the economy in general will probably re-open the possibility of a key rate cut before year's end.

Most of the euro-zone governments have benefited from the cyclical uptrend in 2007 and seized the opportunity to decrease their budget deficits. For the zone as a whole, the deficit diminished to a mere 0.6% of GDP in 2007, with Germany even managing to post a balanced budget. This improvement in certain countries has afforded a degree of leeway, albeit limited by a heavy debt load, that could permit the use of budget policy to bolster the economic cycle if need be. The room to manœuvre on the monetary policy side, however, remains much wider, given that the downturn will likely cause the euro-zone deficit to rise anew, by about half of a percentage point relative to GDP.

When all is said and done, given the absence of rate cuts to date, the slowdown in the domestic economy can be expected to intensify and the risk of a significant let-up in the pace of economic activity in the euro zone will likely increase, just as the global economy is taking a sudden slant downward. The euro-zone economy as a whole should decelerate for a number of reasons: the global downturn's ripple effect on trade, financial strains, the credit squeeze, and the real possibility that several countries will enter a real estate downturn. In sum, growth is expected to fall short of the speed limit, that is, below 2%, especially next year.

JAPAN: HIGHEST INFLATION RATE IN 10 YEARS
JAPANESE CPI, NATIONAL MEASURE



Sources: NBC Economic Research, Datastream

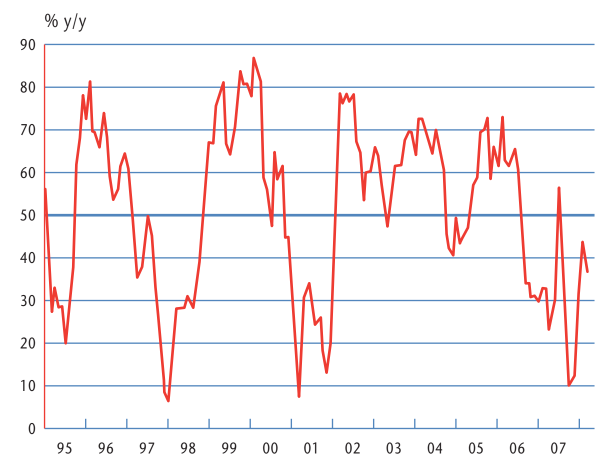
High risk of contraction in Japan

Japanese real GDP would appear to have progressed by a solid annualized rate of 3.3% in the first quarter of 2008. However, this figure is misleading, as the data were not adjusted for the leap year. This effect added about two percentage points to quarterly growth. Given that consumer spending contributed 1.5 percentage points and that nominal GDP growth advanced at that same pace, the result might even have been a contraction in nominal activity if the usual corrections had been applied. Probably more indicative of the poor state of the economy's fundamentals is the fact that business investment declined for the first time in nine months.

Japan remains one of the G7 economies most vulnerable to a global economic slowdown and a concurrent surge in energy prices. This is because the Japanese economy is more open than the U.S. economy, and the country imports practically all of its fossil fuels. As a result, economic growth in the land of the rising sun is subject to greater risk in the kind of context prevailing at the moment.

The sharp increase in energy and food prices has succeeded in reversing the Japanese deflation of the recent past. The country is now experiencing moderate inflation, hovering just above 1% year over year, for the first time since 1998. However, as prices are not being driven upward by the vigour of the Japanese domestic economy, this development is having a rather adverse effect on real economic activity. With wages mounting only very slightly in nominal terms, the rise in energy and food prices is greatly eroding household purchasing power. Consumer demand should remain soft in future, especially given that labour market conditions are deteriorating in the wake of shrinking corporate earnings. Consequently, domestic demand growth will remain feeble.

JAPAN: RISK OF CONTRACTION
LEADING DIFFUSION INDEX



Sources: NBC Economic Research, Datastream

With respect to the external sector, exports continue to be sustained by strong demand growth from emerging Asia and, to a smaller degree, from Europe. Emerging Asia accounts for about half of Japanese exports, compared with just over one-third for the United States and Europe combined. However, it will be hard for Japanese exports to maintain their stride. In terms of volume, growth in exports to Asia has fallen dramatically, and a drop in annual exports bound for the U.S. market has just been registered for the first time in four years. In this connection, it need be added that the Japanese currency was trading at 120 yen to the U.S. dollar at the start of the financial crisis last August, compared with less than 105 yen today.

The Japanese Leading Diffusion Index has crossed the recession threshold, pointing towards a possible contraction in economic activity in the coming quarters. Consequently, GDP growth will prove considerably less robust in the near future, and the risk of seeing activity pull back will remain high.

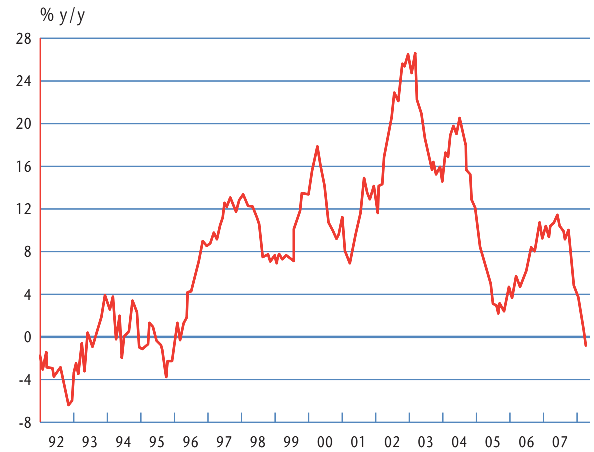
Moreover, the Japanese central bank has recognized that the real economy will in fact go through a severe slowdown. With the risk of recession high, the Bank of Japan is not likely to hike interest rates over the short term, although the financial markets have raised the possibility of such an occurrence should inflation begin to escalate.

If the shock to the external sector turns out to be worse than expected, Japan has very few stimulus measures at hand. Aggressively reducing the key rate is not an option, given that it has already been standing at 0.5% since February 2007. As far as budget policy goes, net public debt remains among the highest in the G7, which implies that the fiscal leeway is limited.

With domestic demand unable to compensate for a probable decline in export growth, Japanese economic expansion can be expected to advance rather haltingly this year, given the absence of any real macroeconomic stimulus tools.

RESURGENCE OF DEFLATION IN HOUSING SECTOR

AVERAGE HOME PRICE IN UNITED KINGDOM ACCORDING TO NATIONWIDE INDEX



Sources: NBC Economic Research, Datastream

United Kingdom: Similarities with United States

The economic environment currently reigning in the United Kingdom is in many ways similar to that which has plunged the United States into a serious slowdown. Among other things, after the past monetary tightening and a steep increase in home prices, residential real estate in the United Kingdom began to decline in the second half of 2007.

As in the United States, downward risks for economic activity have been exacerbated by more stringent credit conditions. According to Nationwide, U.K. home prices have registered their first year-over-year decrease since 1996. In 2008, the institution is anticipating a further decline in the vicinity of 10%. Against this backdrop, household confidence has sagged to its lowest mark since 1992.

Again, as in the United States, other sectors of the economy have begun to feel spillover effects from real estate. With home prices no longer on the rise, consumers have begun to tread more cautiously. High-frequency indicators of consumption have begun veering downward and manufacturing output has advanced at its weakest pace since the start of 2007. The central bank expects household spending growth to let up considerably this year on account of decreased real estate wealth. The Governor of the Bank of England has even raised the possibility that economic activity could backpedal for one or two quarters in 2008.

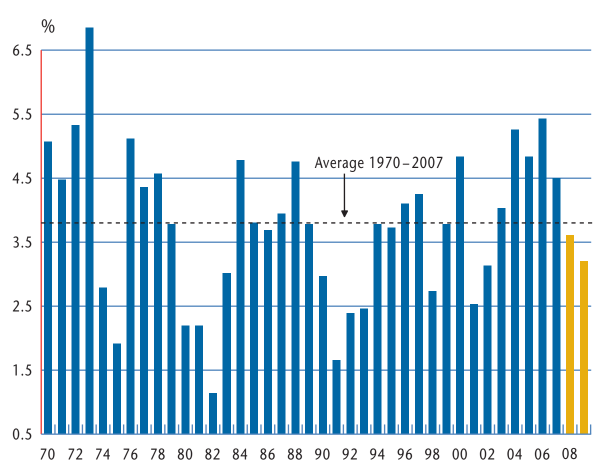
The U.K. monetary authority has lowered its intervention rate every two months since December, bringing it down from 5.75% to 5%. Financial markets are nonetheless pushing the next rate cut back to this summer, despite the cooling economy. This is because the central bank is growing wary of the spectre of inflation. Producer prices are currently rising at the fastest rate since record-keeping began. Furthermore, the consumer price index has just shot up to its highest level in six years. Pegged at about 3%, inflation in the United Kingdom is presently one full percentage point above the monetary authority's target.

Food prices have been climbing all over the world, and the U.K. is no exception. At 6%, food inflation is likely to undercut the purchasing power of U.K. consumers. However, the central bank is even more worried about the concurrent rise in the prospect of inflation. Indeed, inflation expectations for the coming year have hit 3.8%, well above the monetary target. According to the Bank of England, inflation could top 4% in the second half of the year, and prices could continue to rise at a rate above the 2% target for two full years yet. Under the circumstances, it will be difficult to move aggressively to cut rates in the months ahead, unless the economy slows enough to warrant it and a clear excess production capacity situation emerges.

As for budget policy, certain stimulus measures have been deployed, though much more timidly than in the United States. Tax cuts in the order of 2.7 billion pounds sterling, or the equivalent of 120 pounds per taxpayer, have been granted. However, overall, this only represents a meagre 0.2% of GDP and so will probably not be enough to pick up the slack from monetary policy in the face of the downturn under way. In short, there is a serious downward risk to growth in the United Kingdom. With the key rate at 5%, monetary policy is not in stimulative territory. Hence, more rate cuts could be in the cards, but probably not before late summer.

END OF ABOVE-TREND GROWTH

WORLD REAL GDP GROWTH



Sources: NBC Economic Research, IMF

Conclusion

Emerging Asia will once again remain the global economy's driver of growth in 2008 and 2009. However, the world economy is in for a rougher landing as it is buffeted by trade spillover effects caused by a notable downturn in the United States and a sharp rise in world energy and food prices.

After recording its strongest sequential increase in nearly 40 years, the global economy will likely grow by no more than a modest 3.6% in 2008 and by an even meeker 3.2% in 2009, for a stretch of two consecutive years below trend.

Economic growth

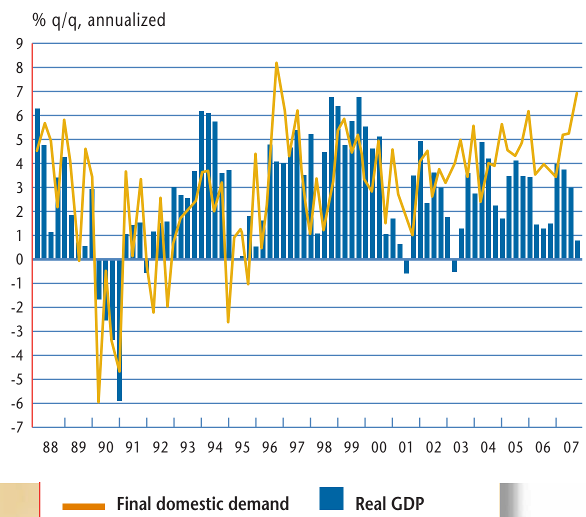
	2007	Forecast 2008	Forecast 2009
Industrialized countries	**2.4**	**1.5**	**1.5**
United States	2.2	1.2	1.6
Euro zone	2.6	1.7	1.5
Japan	2.0	1.3	2.0
United Kingdom	3.0	1.6	1.4
Canada	2.7	1.4	1.8
Australia	3.9	3.1	2.8
New Zealand	3.1	1.7	1.5
Asia (excluding Japan)	**9.4**	**7.8**	**6.3**
China	11.9	9.5	7.5
Hong Kong	6.3	4.8	4.0
India	8.7	7.7	6.4
Indonesia	6.3	5.8	5.0
Korea	5.0	4.4	3.9
Malaysia	6.3	5.5	4.8
Philippines	7.3	5.5	4.9
Thailand	4.8	4.7	4.0
Taiwan	5.7	4.3	3.8
Singapore	7.7	6.0	5.0
Latin America	**5.5**	**4.4**	**3.5**
Mexico	3.3	2.5	2.2
Brazil	5.4	4.6	3.8
Argentina	8.7	6.5	4.3
Venezuela	8.4	5.6	3.5
Chile	5.1	4.5	4.0
Peru	9.0	7.3	6.3
Eastern Europe	**6.6**	**5.8**	**5.4**
Russia	8.1	7.1	6.5
Czech Rep.	6.5	4.8	4.6
Hungary	1.3	2.1	2.2
Poland	6.5	5.3	4.8
Turkey	4.5	4.0	4.0
World	**4.9**	**3.6**	**3.2**

Sources: NBC Economic Research, Consensus Economics

CANADA

- ***While not being immune to a moderate recession in the U.S., the Canadian economy enjoys fundamental factors acting as shock absorbers.***
- ***Although nearly one quarter of GDP comes from exports bound directly for the United States, the buoyancy of domestic demand, high commodity prices and the vitality of the job market render a contraction in activity unlikely this side of the border.***
- ***Low real interest rates and a public finance surplus afford ample leeway to stave off the worst and should help the Canadian economy to outperform that of the U.S.***
- ***The Canadian dollar will come up against serious cyclical headwinds this year; as a result, it will take a break from its bullish run begun in 2003. The loonie should fluctuate between 93 and 98 cents over the next few quarters before floating back to parity in 2009-2010.***
- ***Real growth in the order of 1.4% is expected in 2008. Next year, a slight improvement should register, with growth edging up to about 1.8% as the U.S. economy slowly recovers.***

UNUSUAL DIVERGENCE
GDP GROWTH AND FINAL DOMESTIC DEMAND



Sources: NBC Economic Research, Statistics Canada

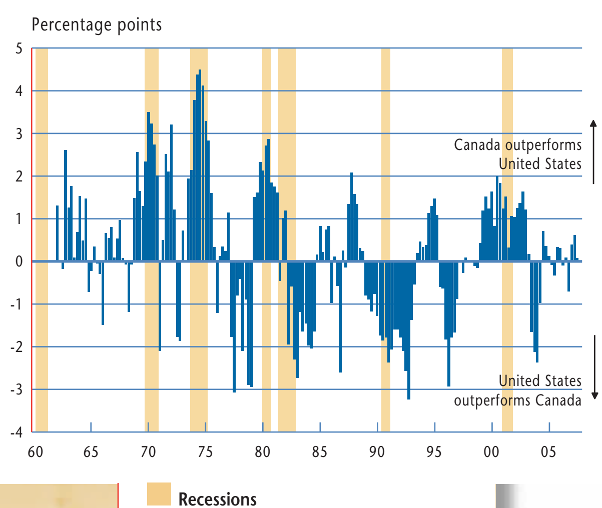
Modest GDP, vigorous domestic demand

Economic activity in Canada is presently going through a deceleration in real terms. Real GDP advanced 0.8% at an annualized rate in the fourth quarter of last year, before contracting somewhat in the first quarter of 2008. However, GDP growth provides a poor reflection of the Canadian economy's current dynamism.

In fact, an unusual divergence has opened up between growth in real GDP and in domestic demand, the economy's true spearhead. Trend growth in domestic demand on this side of the border has picked up in recent quarters and is presently hovering at about 5% in real terms. The unprecedented decoupling between GDP and domestic demand statistics stems from the fact that domestic demand is growing much faster in Canada than in the United States. Such a differential places the Canadian foreign sector at a definite disadvantage.

CANADA SHOULD OUTPERFORM UNITED STATES

CANADIAN TREND GROWTH LESS U.S. TREND GROWTH



Sources: NBC Economic Research, Global Insight, Statistics Canada

In other words, Canadian net exports are at the root of the problem. The downturn in the United States has pulled the rug from under the Canadian export sectors. Meanwhile, Canadian domestic demand is failing to fully offset the repercussions of the loonie's surge and the U.S. slowdown because it is concurrently boosting the growth of imports on this side of the border. Thus, net exports are having a negative impact on the economy, shaving several basis points off growth.

The Canadian economy is now running below its cruising speed, to the point where the country will slip into an oversupply situation for the first time in four years towards the end of the first half of 2008. That said, Canada is unlikely to be dragged into recession by the economic downturn in the United States.

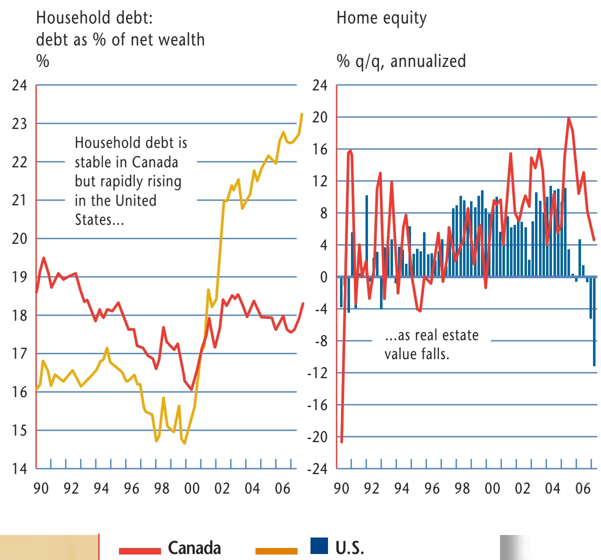
In a better position than southern neighbour...

Despite its present deceleration, the Canadian economy possesses certain undeniable strengths. Indeed, Canada is in a much better position today than at the time of the last U.S. consumer recession in 1990-1991. Consequently, the Canadian economy should, in principle, hold up better against the impact of a mild U.S. recession.

As a net exporter of raw materials, particularly fossil fuels, Canada holds an edge over the United States when commodity prices escalate. Accordingly, Canadian growth outstripped U.S. growth by a long stretch in the 1970s. Indeed, commodity prices are markedly higher today than during the U.S. recession in 1990-1991.

Moreover, unlike what is happening in the United States, job creation has not broken stride in Canada. The participation rate continues to rise and the unemployment rate shows no signs of trending up. In fact, since the beginning of the year, no fewer than 123,000 jobs have been created in Canada, of which 115,000 are full time. Given that full-time positions make a heftier contribution

HOUSEHOLD BALANCE SHEETS REMAIN SOLID



Sources: NBC Economic Research, Federal Reserve, Statistics Canada

to payrolls than part-time jobs, it is not surprising that Canadian consumers have so far proven much more resilient than their U.S. counterparts. Helping matters is the fact that average hourly wages are rising much more briskly than inflation, a key factor in keeping the Canadian economy from falling victim to the U.S. recession. Real personal disposable income increased by more than 7%, annualized, in Canada early in the year while posting a gain smaller than 2% in the United States.

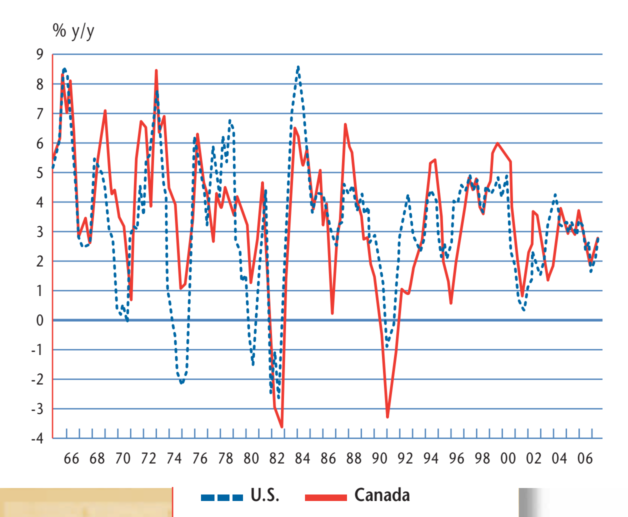
However, the jump in personal disposable income is not the only factor boosting final domestic demand. An increase in household net wealth has contributed as well. Indeed, proportionally speaking, the ratio of net wealth to personal disposable income is today higher in Canada than in the United States. While U.S. households are witnessing a marked deterioration in their balance sheets, Canadian households continue to gain ground in this area. The net worth of real estate assets has declined in the United States, whereas it continues to grow in Canada, even though it has let up somewhat recently.

Finally, the wealth of U.S. households is increasing less rapidly than their debt, whereas in Canada, the debt-to-net wealth ratio has decreased slightly since 2003. Consequently, Canadian consumers are much better equipped to sustain domestic demand, compared with their U.S. counterparts. While U.S. households are having to deal with the largest destruction of wealth since the 1930s and a pronounced drop in purchasing power, Canadian households are facing a totally different situation.

Canada definitely seems to be in good shape to stave off a contraction in economic activity. The risk of recession is still no higher than 30% on this side of the border, and observers have many reasons to be more upbeat about economic growth in Canada than in the United States.

CANADA-U.S.: CYCLES IN SYNC

REAL ECONOMIC GROWTH: CANADA VS. UNITED STATES



Source: NBC Economic Research

...but not entirely immune

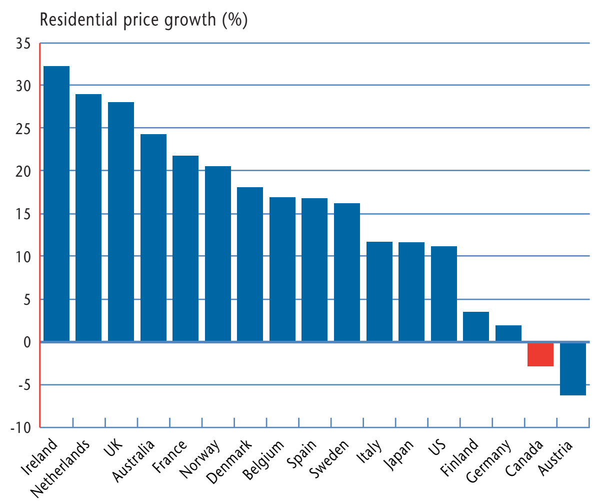
However, this relatively stronger position does not mean that Canada is entirely immune to a moderate recession in the United States. After all, Canada is essentially a small open economy and, as such, remains sensitive to shockwaves sent out by the U.S. economy.

Given that exports account for more than 33% of Canadian GDP and that about 80% of these ship directly to the United States, any talk of a decoupling scenario between the two economies should be greeted with a good dose of skepticism. Indeed, Canadian economic growth never accelerates when the U.S. economy trends down. During a U.S. recession, Canadian export growth can easily shed as much as 8 to 10 percentage points. In short, the Canadian foreign sector remains highly exposed to the U.S. cycle.

Canadian exporters will be facing a situation not seen since the 1970s, namely, a U.S. recession while the loonie is about par with the greenback. With a not insignificant contraction of 4.1% in Canadian exports predicted for this year, the manufacturing sector cannot be expected to turn the corner any time soon.

CANADA: NO OVERPRICING

INCREASE IN HOME PRICES FROM 1997 TO 2007 NOT ACCOUNTED FOR BY FUNDAMENTAL FACTORS



Sources: NBC Economic Research, International Monetary Fund (April 2008)

Housing swinging back to balanced market

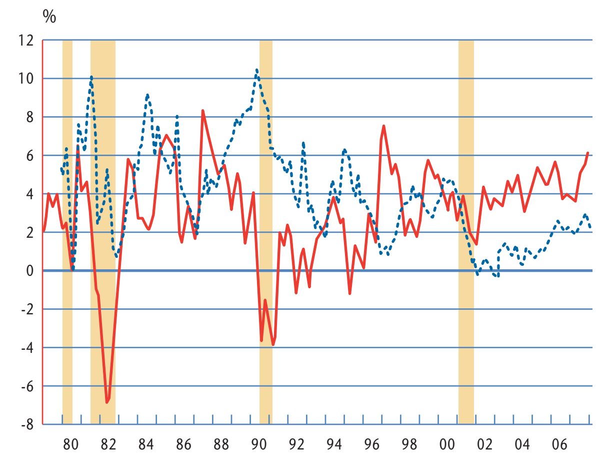
Despite a certain cooling of the resale market, the Canadian real estate sector is demonstrating moderation and order as it corrects to swing back to a balanced position. Hence, a U.S.-style real estate scenario can pretty much be ruled out in Canada.

Based on an IMF report published in April concerning the value of homes in various industrialized countries, it is very difficult to see how home prices could fall in Canada at the national level. For each country, the IMF calculated housing appreciation from 1997 to 2007 as a function of affordability, disposable income growth, interest rates, credit growth, and changes in working age population. According to the IMF, Canada is one of the only two countries, the other being Austria, where homes are not overpriced. Several countries other than the United States are vulnerable to a decline in home prices, but Canada is among those least at risk. Hence, despite strong appreciation in recent years, a generalized decline in home prices remains highly improbable.

Existing home sales recently began to recede, though, while the number of homes listed for sale increased. However, at the national level, this phenomenon just pushed the new listings-to-sales ratio from the seller's market range to the balanced-market range. In another segment, multiple dwelling starts (rentals and condos) have grown markedly during the past few years, surpassing single-family starts for the first time since 1982. However, this situation is not worrisome, as the number of new and unoccupied multiple dwellings has been stable since 2005. Furthermore, this number is much lower than what prevailed during the housing meltdown at the beginning of the 1990s. This means that builders have been able to keep pace with demand.

A PRE-EMPTIVE MONETARY POLICY

KEY RATE LESS CORE INFLATION YEAR OVER YEAR* AND CHANGE IN REAL FINAL DOMESTIC DEMAND (FDD)



* Prior to 1985, core inflation was CPI less food and energy

U.S. recessions

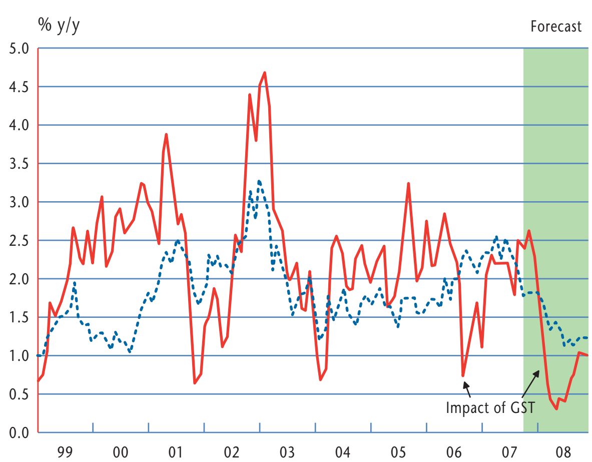
FDD (q/q, annualized)

Real overnight rate

Sources: NBC Economic Research, Statistics Canada

INFLATION WILL CONTINUE TO DIMINISH

CPI INFLATION: TOTAL INDEX VS. CORE INDEX EXCLUDING THE EFFECT OF INDIRECT TAXES



Total

Core

Sources: NBC Economic Research, Global Insight

Bank of Canada dispensing preventive medicine

In response to the deceleration in real GDP growth, the Bank of Canada doubled up its monetary relaxation by lowering its key rate from 4% to 3.5% early in March and by another 50 basis points early in May. These two cuts constitute the first to exceed a quarter of a point in more than six years, that is, since November 2001.

The Canadian key rate has never been so low in real terms just before a U.S. recession and during a boom period for final domestic demand. This means that the Bank of Canada is taking a pre-emptive – and rather bold – stance with regard to its monetary policy.

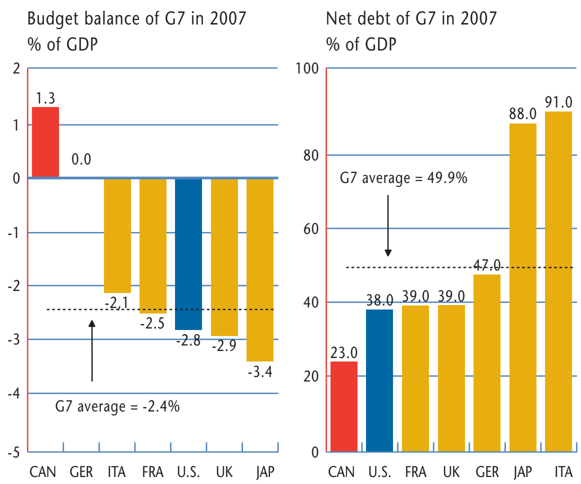
Despite rising food and energy prices, it need be said that, unlike in the United States, there is a near-absence of inflationary pressure in Canada. The core inflation rate presently stands at 1.5% year over year, and total inflation at 1.7%. Both of these are below the midpoint of the monetary authority's target range. Inflation should even diminish further under the effects of the Canadian dollar's past appreciation, which has triggered deflation in the price of goods. Indeed, retailers and manufacturers have been passing savings along to consumers. Never in the past half-century have big-ticket items such as automobiles dropped in price so sharply. As a result, consumers are benefiting from increased purchasing power.

The parameters of the Canadian economy are a complex set for the monetary authority to juggle. On the one hand, GDP statistics are slowing down; on the other, the job market remains vigorous and domestic demand is at full throttle. However, good news from the inflation front affords the Bank of Canada the leeway necessary to practise pre-emptive monetary easing and thus prevent Canadian domestic demand from losing steam. With this preventive medicine, the Canadian monetary authority is merely seeking to fill the deflationary output gap that gradually sets in following a deceleration in real activity.

Further cuts to the key rate will no doubt be necessary in order to brace the economy against potential ripples emanating from U.S. economic woes. Consequently, an intervention rate of 2.50% is expected by year-end.

CANADA STANDS APART BUDGET-WISE

GOVERNMENT BUDGET BALANCE AND NET DEBT



Source: NBC Economic Research

Still well equipped budget-wise

In late February, the federal government tabled a 12th consecutive balanced budget. A considerable surplus of about $13 billion for the year ended March 31 allowed Ottawa to announce $2.7 billion in last-minute spending, while earmarking more than $10 billion for federal debt paydown. It should be remembered that these results were posted notwithstanding the tax cuts announced in the economic update of last October 30. The tax breaks granted by Ottawa to households and businesses will total $21 billion this year, or about 1.4% of GDP. These various measures are of the same magnitude as the stimulus package adopted in the United States to ward off recession, except that the tax cuts are permanent on this side of the border and, therefore, more effective in terms of budget policy.

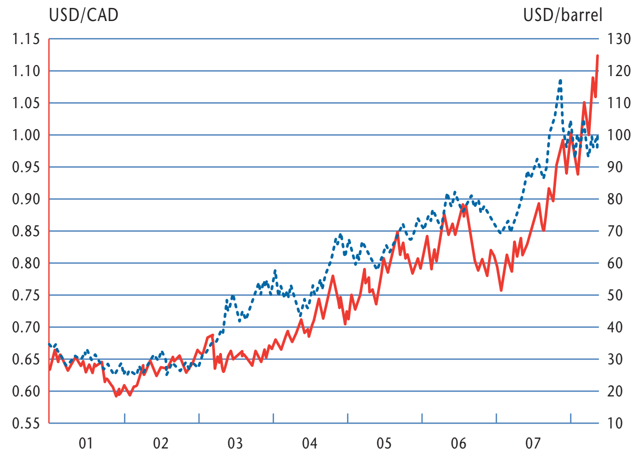
While recurring hefty public deficits keep bloating the public debt of other G7 countries, Canada continues, year after year, to go it alone in the field of public finance. The average government deficit within the G7 now stands at -2.4% of GDP; Canada, on the other hand, is staying its course, having posted yet another surplus in 2007. The net federal debt now stands at a mere 23% of GDP, less than half of the G7 average.

Fortunately for Canada, despite the downturn in the United States, revenues deriving from fossil fuels continue to swell federal government coffers at a time of high world energy prices. Moreover, the vitality of the job market and of domestic demand affords public authorities more liberty of action since, along with the oil and gas revenues, the record workforce participation rate broadens the government's revenue base.

Consequently, even after reducing the Goods and Services Tax more than once, Canada remains well equipped budget-wise to withstand the economic downturn south of the border. The federal government's sound financial health leaves it in a position to bolster economic activity by means of tax cuts and capital investment projects. It is primarily the budget surplus that makes this kind of recession-proofing possible.

DECOUPLING SINCE LATE 2007

LOONIE'S EXCHANGE RATE AND WORLD CRUDE OIL PRICES



Sources: NBC Economic Research, Global Insight

Loonie facing cyclical headwinds

At time of writing, the Canadian dollar had depreciated by 3% against the greenback since the beginning of the year, while the euro and Japanese yen had appreciated by 5% and 7%, respectively. Since last January, the loonie has even lost ground to two other cyclical currencies, namely, the Australian and New Zealand dollars.

Contrary to previous years, while world crude oil prices have continued to rise, the Canadian dollar has not been pushed upward since last November. As a result, a marked decoupling of the Canadian dollar and oil prices has been observed for some time now.

Truth be told, foreigners continue to perceive the loonie largely as a cyclical currency. Though the Canadian economy will outperform the U.S. economy in 2008 and commodity prices should remain buoyant in the first half of the year, investors may grow increasingly jittery in the face of Asian growth and commodity prices in the second half of the year. Consequently, in 2008, the Canadian dollar will face some serious cyclical headwinds. Compared with the Australian and New Zealand dollars, the loonie is the only cyclical currency for which the real and financial economy is so deeply integrated with that of the United States, which is presently on a serious downturn.

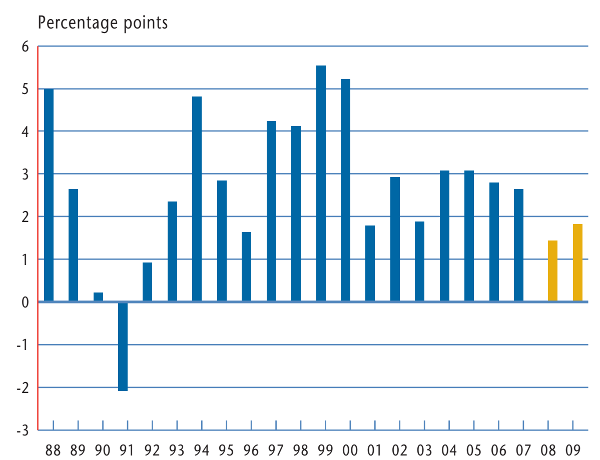
The sluggishness of the Canadian foreign sector is such that, despite high oil prices, the Canadian current account balance dipped into the red in the fourth quarter of 2007. What's more, the IMF is predicting a current account deficit for Canada equal to 1.2% of GDP next year. Given that currencies tend to act as current account regulators, Canada's real exchange rate has trended down every time the Canadian foreign trade balance has shifted into a deficit position since 1970.

Furthermore, though the situation may not be as bleak as in the United States, the Canadian economy is slowing down to the point that, by the end of June, Canada will be in an oversupply situation for the first time in four years. The rate spreads between Canada and the United States will therefore probably continue to narrow after peaking recently. If so, future adjustments in Canadian monetary policy would have a negative impact on the loonie.

In sum, the loonie's uptrend that began in 2003 will likely come to an end in 2008 as the Canadian dollar is poised for a cyclical decline against the greenback. Under the effects of the correction anticipated in the commodity sector, the loonie should range between 93 and 98 cents over the coming quarters before returning to parity in 2009-2010. An average level of 95 cents is therefore expected this year.

CANADA NOT IMMUNE

ANNUAL REAL GDP GROWTH AND FORECASTS



Source: NBC Economic Research

Forecasts

While not being immune to a moderate recession in the U.S., the Canadian economy enjoys fundamental factors strong enough to weather the U.S. economic downturn. Though nearly 25% of GDP is linked to trade with the United States, the vigour of domestic demand and the vitality of the job market render a contraction in activity in Canada highly unlikely. Low real interest rates and a public finance surplus provide ample leeway to stave off the worst, and should help the Canadian economy to outperform the U.S.

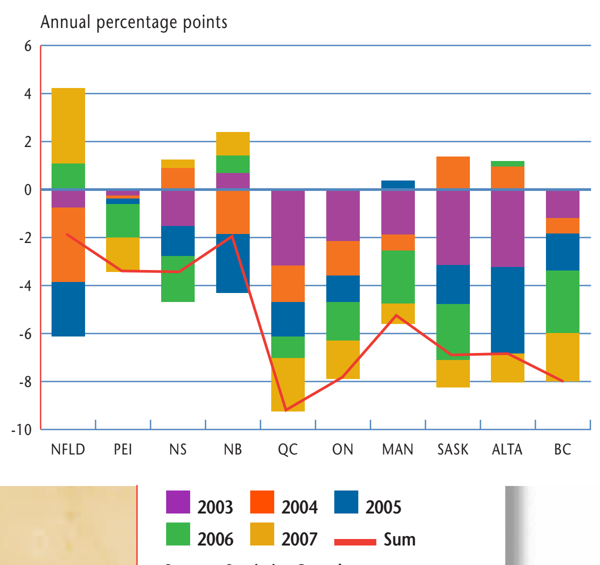
Real economic growth in the order of 1.4% is expected this year, down from 2.7% in 2007. In 2009, a slight improvement should register as the U.S. economy recovers slowly, with expansion edging up to about 1.8%.

PROVINCIAL ECONOMIES

- ***Quebec and Ontario account for three-quarters of Canadian manufacturing, a sector that has been hard hit since 2003 by the Canadian dollar's appreciation. As a result, economic growth in these two provinces since that time has run below the national average. We think that this scenario will be repeated in 2008 and 2009 because of the recession expected in the United States.***
- ***Economic growth in Newfoundland and Labrador is closely tied to oil extraction. Major investments are supporting expansion in the Maritimes.***
- ***The Prairies will continue to dominate economic growth in Canada on account of their natural resources. However, growth in British Columbia is expected to slip below the 3% mark.***

FOREIGN TRADE CONTRIBUTION TO REAL GDP GROWTH

ANNUAL CONTRIBUTION BY PROVINCE AND SUM OF ANNUAL CONTRIBUTIONS



Source: Statistics Canada

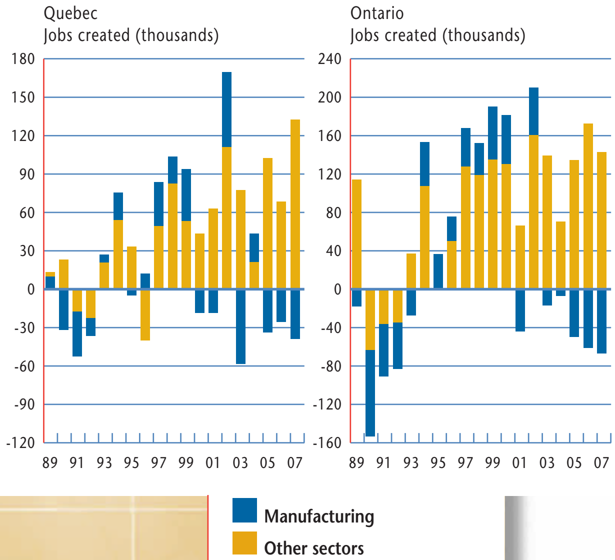
Central Canada buffeted by the U.S. recession

Together, the central provinces of **Quebec** and **Ontario** represent 60% of the Canadian economy. These two provinces have diversified economies that are less resource-based than those of the other provinces. They account for three-quarters of Canadian manufacturing, which relies heavily on exports to the U.S. The sector's competitiveness has been hard hit by the Canadian dollar's appreciation since 2003. Consequently, as shown by the first graph, international trade has compressed economic growth the most in Quebec since 2003, with Ontario ranking third in this regard, just behind British Columbia. It is no accident that Quebec and Ontario have experienced five consecutive years of economic growth below the national average.

That said, in spite of the damage caused by the deteriorating real trade balance in each of these provinces in the past five years, economic growth has nonetheless reached an annual average of 2.0% in Quebec and 2.2% in Ontario, thanks to vigorous domestic demand.

REMARKABLE SHOWING BY LABOUR MARKET

DESPITE JOB LOSSES IN MANUFACTURING SECTOR



Source: Statistics Canada

ONTARIO: RECENT TREND IN THE NUMBER OF JOBS

BY CLASS OF WORKERS

Source: Statistics Canada

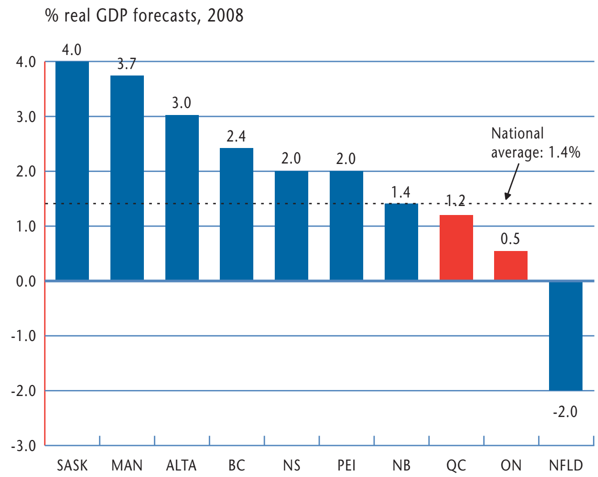
The remarkable performance of the labour market, in spite of job losses in the manufacturing sector, has been a driving force in stimulating domestic demand. From 2004 to 2007, manufacturing sector employment shrank by more than 13% in Quebec and Ontario, a substantial loss considering that in 2004, manufacturing employment accounted for slightly more than 17% of total employment in each province. Job creation in other sectors, coming in at an impressive annual rate of 2.7% and 2.6% in Quebec and Ontario, respectively, has nonetheless amply offset manufacturing sector job losses.

In 2007, consumer spending was up 4.6% in real terms in Quebec, its biggest increase since 1985. It was stimulated in particular by a retroactive payment to provincial civil servants as part of a pay equity settlement. Although tax relief measures will sustain spending in 2008, consumer spending growth will nonetheless decrease as employment loses some steam. In contrast to 2007, residential construction should slow, while business non-residential construction is unlikely to repeat its 12.4% advance of 2007. These are factors that cannot be completely offset by the strong growth in investment spending by public administrations. Consequently, while domestic demand will remain vigorous, it will not contribute as much to economic growth as it did in 2007. Net exports will not pick up the slack, given the weakness of the U.S. economy. For these reasons, Quebec's economic growth should be approximately 1.2% in 2008, versus 2.4% in 2007.

Domestic demand should also remain vigorous in Ontario. More specifically, this province experienced a surge in employment starting in the second half of 2007, concentrated in the public sector, where the workforce has expanded by more than 10% in less than a year. However, Ontario's net exports are likely to erode economic growth in 2008, given the proportion represented by automobiles destined for the U.S. market. In the U.S., new automobile sales, which totalled 16.2 million units in 2007, had already dropped to 15.1 million units, annualized, in the first few months of 2008. As a result, economic growth in Ontario, which stood at 2.1% in 2007, will likely plummet

GDP GROWTH: CENTRAL PROVINCES BELOW NATIONAL AVERAGE

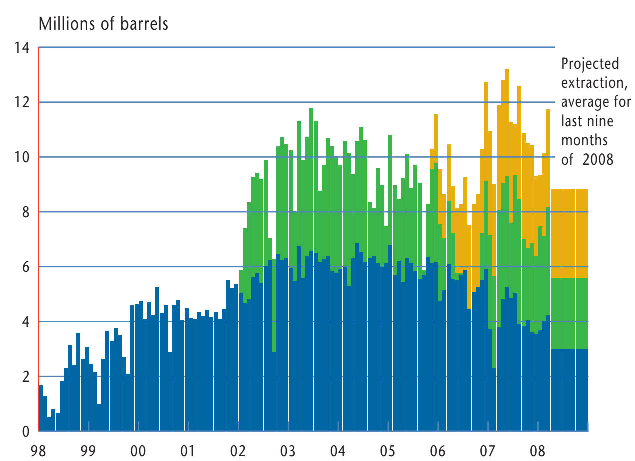
REAL GDP FORECASTS, 2008



Source: NBC Economic Research

NEWFOUNDLAND AND LABRADOR: OIL EXTRACTION

MONTHLY EXTRACTION



Sources: Canada-Newfoundland and Labrador Offshore Petroleum Board, Newfoundland and Labrador Department of Finance

to 0.5% in 2008. To date, Ontario's real trade balance figures, available since 1981, have always shown a positive total balance (international and interprovincial trade). This trend could well be reversed in 2008, as a trade deficit is expected.

In 2009, the shock from the drop in demand for automobiles will be a thing of the past, given the start-up of the Toyota plant in Woodstock. However, without a vigorous rally south of the border, Ontario's economic growth is unlikely to exceed 1.2%, a rate likely to be matched by the Quebec economy.

Atlantic Provinces: Investments supporting the economy

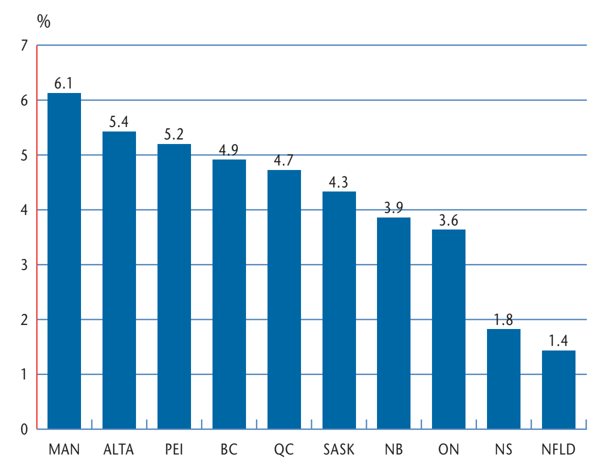
The economy of **Newfoundland and Labrador** is evolving in lockstep with oil extraction from offshore sites. The province posted real economic growth of 9.1% in 2007, following a 21.3% increase in the number of barrels of oil extracted, increased output at the Voisey's Bay nickel-copper-cobalt deposit, and the opening of the Duck Pond copper-zinc mine. However, according to the province's Department of Finance, real GDP should fall by 2.0% in 2008, as oil extraction is expected to be down by about 17%.

And yet 2008 is not likely to be a disastrous year, as apart from oil production, the economy should expand by 3%. The province's employment rate, although still the lowest in Canada, reached 52% in the early months of 2008, a historic high. In 2009, an increase in oil extraction from a Hibernia satellite site, the start of the Lower Churchill hydroelectric project, continued construction on a nickel plant, and the expansion of the White Rose offshore site should mean 3.7% growth in the economy.

Oil and gas extraction represents 35% of the province's nominal GDP. In 2008, higher oil prices will offset the expected decline in extraction. In its last budget, the government anticipated a slight increase in oil royalties for 2008-2009, based on a prudent assumption of an average price of \$87 per barrel. The province's fiscal

FINAL DOMESTIC DEMAND GROWTH IN 2007

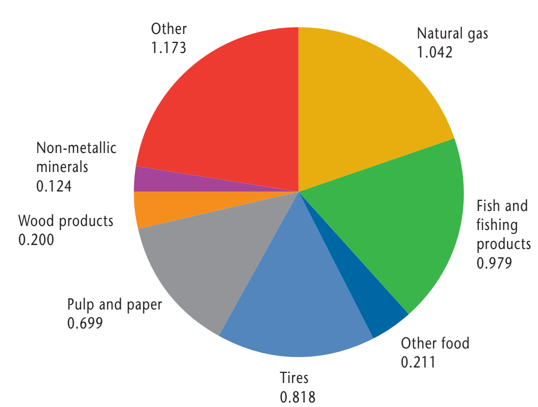
IN REAL TERMS



Source: Statistics Canada

NOVA SCOTIA: INTERNATIONAL MERCHANDISE EXPORTS

BROKEN DOWN BY INDUSTRY, EXCLUDING RE-EXPORTS



Source: Industry Canada

capacity has increased to such an extent that the Finance Minister predicts that next year Newfoundland and Labrador will no longer be entitled to equalization payments.

Prince Edward Island edged its way into third place among the provinces in 2007 for domestic demand growth, with an increase of 5.2%.

All components of domestic demand posted vigorous growth in 2007, except for non-residential construction. The government's infrastructure renewal program will stimulate this component in 2008 and will help to keep the province's economic growth at the same level as in 2007, i.e., 2%. Since this investment effort will not persist in 2009, economic growth can be expected to slip to 1.8% next year.

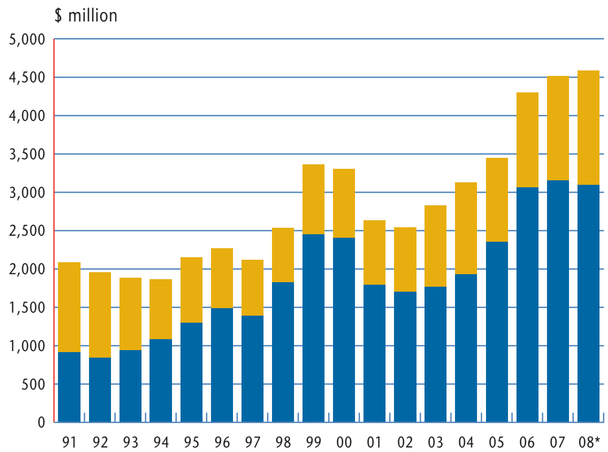
In contrast to most of the other provinces, domestic demand in **Nova Scotia** lacked momentum in 2007, with a modest 1.8% rise in real terms. This can be attributed to the decline in non-residential investment by both public administrations and business. In the case of the latter, investment spending marked time after a 23% surge in 2006.

Business investment should once again be a source of growth in 2008, particularly with the start of development of the Deep Panuke offshore natural gas deposit in 2008. Other investments in the manufacturing and trade sectors will also contribute, which should make up for the impact of the sluggish U.S. economy on real exports, especially natural gas and tires. These two goods accounted for more than a third of the value of the province's international merchandise exports in 2007.

For these reasons, the province's economic growth is likely to increase from 1.6% in 2007 to 2.0% in 2008, and then slow slightly to 1.8% in 2009.

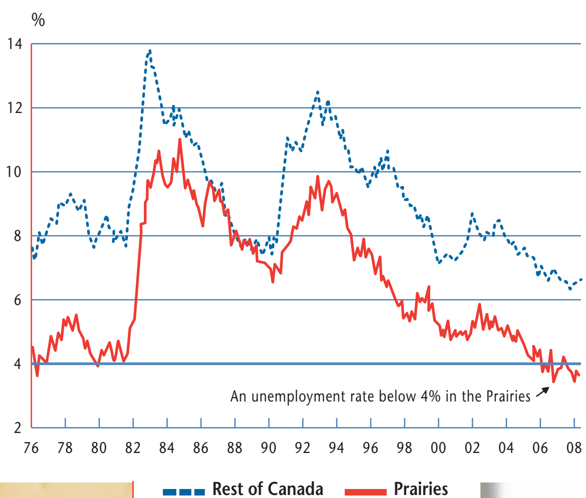
New Brunswick also experienced modest economic growth of 1.6% in 2007. This time, domestic demand was not at fault. On the contrary, non-residential investment by business jumped by 33%, fuelled by a number of factors, including the refurbishment of the Point Lepreau nuclear generating station and the construction of a liquefied natural gas terminal. The province recorded 2.1% employment growth in 2007, the highest among the

NEW BRUNSWICK: NON-RESIDENTIAL INVESTMENT EXPENSES



Source: Statistics Canada

PRAIRIE PROVINCES: COMBINED UNEMPLOYMENT RATE



Source: Statistics Canada

Atlantic Provinces, concentrated in construction and in health and social services. The surge in employment helped to boost consumer spending by 4.3%.

On the other hand, manufacturing activity fell by 4.7% in 2007. The drop was fairly generalized, with 14 of the 21 subgroups reporting a decline. However, the forest products subgroup, representing about 60% of the province's manufacturing activity, accounted for three-quarters of the decrease.

The manufacturing sector will continue to slide in 2008, except for the commissioning of the liquefied natural gas terminal. Construction should hold its ground, though, with mining development by PotashCorp compensating for the soon-to-be-completed work at the Point Lepreau generating station and the liquefied natural gas terminal. On balance, economic growth should be only slightly higher than in 2007, at 1.8%. The end of major projects means that economic growth is likely to fall to 1.4% in 2009.

Prairie Provinces capitalizing on their natural resources

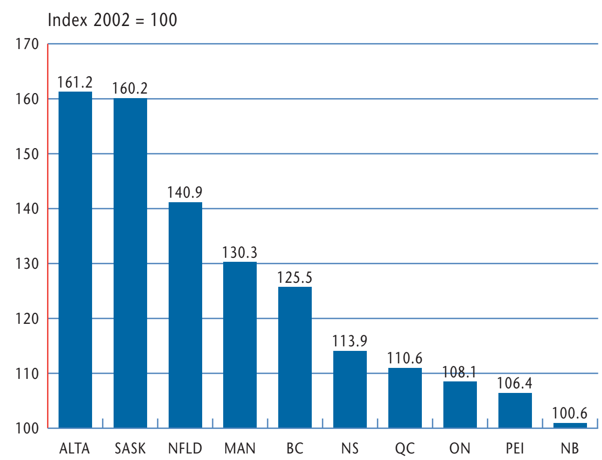
Manitoba experienced economic growth of 3.3% in 2007, and we anticipate that this will increase to 3.7% in 2008.

Major projects are under way in this province, with the result that non-residential investment generated by business or by public administrations recorded double-digit real growth in 2007 for a second consecutive year. Among these major projects are the expansion of the Red River Floodway, upgrades to Winnipeg's international airport, and construction of the Wuskwatim hydroelectric dam.

Residential construction also performed well, with strong growth in housing starts, which reached a 20-year high. Housing starts are not likely to decrease by much in 2008. All in all, domestic demand recorded the highest growth in the country in 2007, at 6.1%.

TERMS OF TRADE

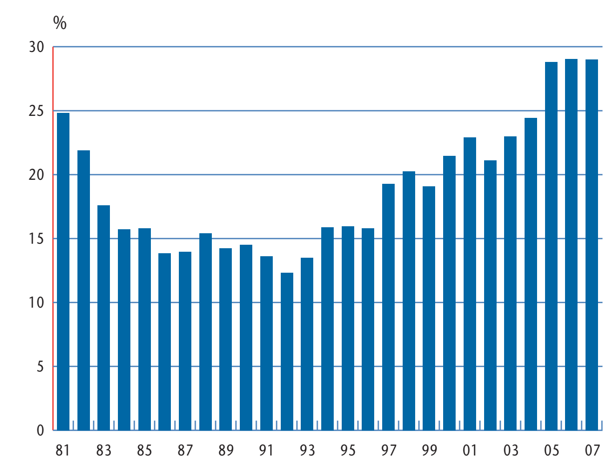
RATIO OF PRICE OF EXPORTS TO PRICE OF IMPORTS, 2007



Source: Statistics Canada

ALBERTA: BUSINESS NON-RESIDENTIAL INVESTMENTS

AS A % OF REAL GDP



Source: Statistics Canada

Stimulated by high metal prices worldwide, the mining sector will continue to expand in 2008, and oil exploration activities will intensify as well. Agriculture is enjoying high prices for its production. The manufacturing sector is robust in spite of the economic environment, thanks to flourishing industries such as bus and aerospace manufacturing. In short, Manitoba is firing on all cylinders.

After a 2.8% gain in 2007, **Saskatchewan** could take the lead in 2008 with expected growth of 4.0%. Agriculture, which accounts for more than 10% of the province's economic activity, should be up by more than 4%, considering the poor harvest in 2007.

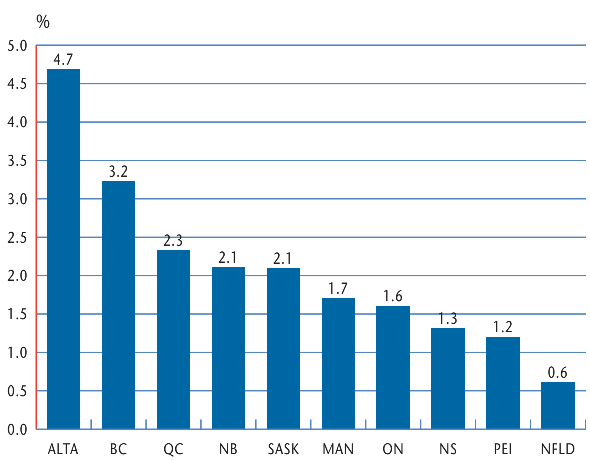
The province recorded a 12.6% increase in the value of its international merchandise exports in 2007. Agricultural product exports jumped by 34%, potash by 24%, and oil and gas by "only" 12%. This rise in the value of exports resulted primarily from higher prices, since in volume terms, international merchandise exports were up by only 2.5%. Saskatchewan recorded the biggest improvement in terms of trade in 2007. Since 2002, the improvement in its terms of trade has been practically identical to that of Alberta.

Strong demand for raw materials is leading to mining development that will contribute to a double-digit expansion in non-residential construction in 2008. In residential construction, the number of housing starts jumped by more than 60% in 2007, and should remain high given that the province is now enjoying a positive flow of migration.

In 2007, **Alberta**'s economy grew by 3.3%, a more sustainable pace than the 6.6% recorded in 2006. That being said, business investment continued to represent an astonishing proportion of the province's economic activity, at close to 30%. Economic growth could amount to 3.0% in 2008. Uncertainty over the introduction in 2009 of a new system for oil royalties will lead to a reduction in the total number of wells, although this reduction will be smaller than in 2007. In addition, natural gas drilling may intensify, stimulated by rising prices.

Several oil sands development projects are likely to be completed in 2008, but this will be largely offset by an increase in hydrocarbon production. However, the past increase in house prices has slowed the tide of interprovincial immigrants, which fell from 56,000 in 2006 to 10,000 in 2007. As a consequence, the housing market was getting back to normal at the beginning of 2008.

EMPLOYMENT GROWTH, 2007



Source: Statistics Canada

Economic growth in British Columbia to drop below 3%

Economic growth in British Columbia could slip below the 3.0% mark, while remaining above the national average. It is likely to stand at about 2.5% in 2008 and 2009.

The value of forest product exports, which account for almost 40% of the province's international merchandise exports, declined by 9.2% in 2007. These exports will continue to slide in 2008. In 2009, construction will level out, although at a high level, sounding the death knell for the years of strong economic growth.

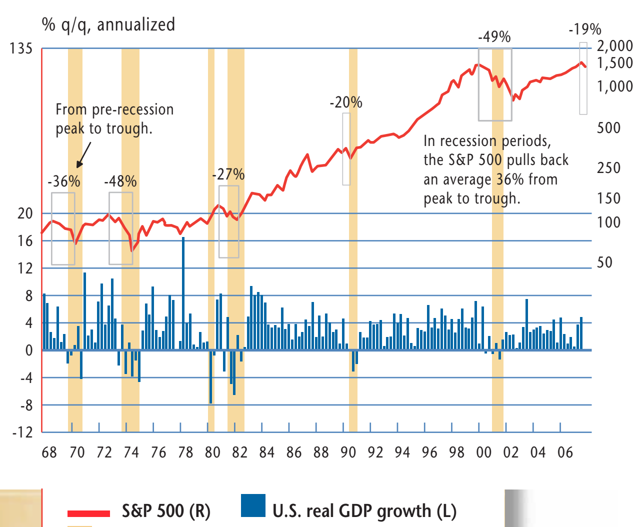
And yet, the province is not in a slump. The labour market has experienced three consecutive years of employment growth in excess of 3%, and during this period, unemployment tumbled from 7.2% to 4.2%. More than 40% of the new jobs came from construction and retail trade. In the latter case, this is no doubt a reflection of the strong growth in consumer spending, fuelled by an average 4.9% increase in real disposable personal income. As well, the expansion of the mining sector will partially offset the decline in the forest industry.

FINANCIAL MARKETS

- ***Since the spectacular rescue of the U.S. investment bank Bear Stearns in March, capital markets have made up a good part of their losses of the previous months.***
- ***But although the worst of the crisis is probably over, the risk premiums demanded by banks and other investors have remained abnormally high.***
- ***With the earnings growth expectations of Wall Street analysts still very high, the U.S. stock market could be quite volatile if the anticipated recession turns out to be longer than expected.***
- ***For the Canadian market, with its heavy weighting in resources, the key question is whether Asian economies are robust enough to withstand cyclical headwinds from a downturn in the giant U.S. economy.***

PERFORMANCE OF EQUITIES IN FIVE U.S. RECESSIONS

S&P 500 COMPOSITE AND U.S. REAL GDP GROWTH



Sources: NBC Economic Research, Datastream

Stock market: Credit crisis factored in, but not a recession

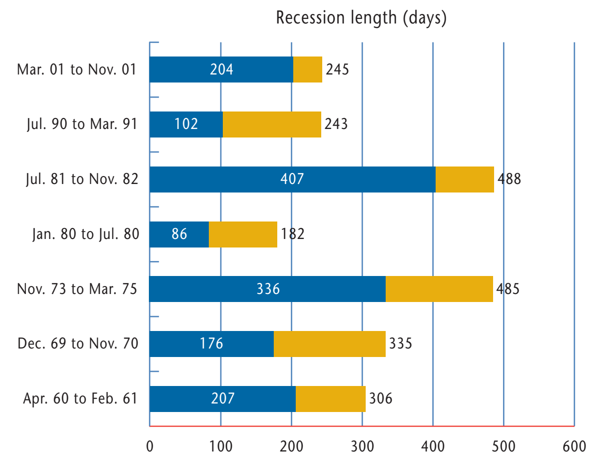
The first half of the year has brought investors thrills and chills in profusion. In January, the Federal Reserve was forced to cut rates between two scheduled meetings in an attempt to restore confidence in a financial system that was badly shaken by the credit crisis. The Fed has now eased its rate by no less than 325 basis points since last September.

These forceful measures did not prevent the collapse of a large Wall Street merchant bank. Bear Stearns closed its doors in March, unable to meet its day-to-day financial obligations. The Fed came to the rescue, orchestrating a salvage operation in which the firm was acquired by JPMorgan.

Investor confidence has gradually returned since then and financial stocks have begun to recover. After falling 25% to 35% from their peak, North American financials

EQUITIES BOTTOM BEFORE RECESSION END

U.S. MARKET



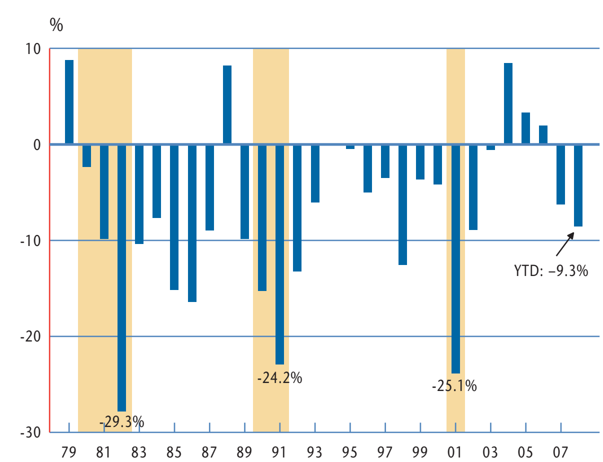
Number of days from start of the recession to market trough

Total recession length

Sources: NBC Economic Research (data from Datastream)

MORE DOWNWARD EARNINGS REVISIONS IN THE OFFING?

CHANGE IN CONSENSUS OUTLOOK FOR EACH YEAR, FROM BEGINNING TO END OF YEAR, U.S. MARKET



U.S. recessions

Sources: NBC Economic Research, Datastream

rebounded by 10% to 15%. Investors have lately seemed little daunted by write-off announcements from financial institutions. More such announcements are expected in the weeks ahead, but the market seems to have already discounted them.

That doesn't mean the equity market is out of the woods. Investors do not seem to have discounted a slowdown, and recent indicators show gloomy prospects for the U.S. economy in the coming quarters.

The stock market delivers higher returns than the bond market in the long run, but never in a recession. In the months preceding and following the last six recessions, the S&P 500 has plunged between 20% and 49% from peak to trough. The good news is that the stock market tends to rebound before the economy does, generally about two-thirds of the way through the recession. And the rebound is typically very strong. The S&P 500 has historically rallied an average of 17.5% within three months of bottoming, and an average of no less than 28.4% within six months.

That said, analysts' expectations for the coming quarters are very high. Though Wall Street has revised down its 2008 numbers, it still expects S&P 500 earnings to grow 9.7% this year. This upbeat outlook implies a whopping 69% growth in the fourth quarter. For 2009, the consensus anticipates growth of 18.5%. For the Canadian market the consensus is even rosier – S&P/TSX earnings growth of 20.8% in 2008 and 14.3% in 2009.

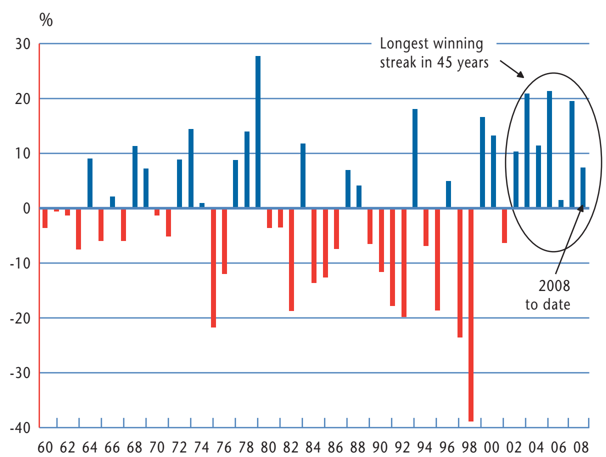
Over the last 30 years, analysts have lowered their growth estimates for a given year an average of 7.6 percentage points over the course of that year. But in recessions, the downgrade over the year jumps to 24%-29%. So far in 2008, the consensus outlook for annual earnings growth has declined 9.3 points in the U.S. and 9.0 points in Canada.

The multiples of the North American markets seem attractive at first glance. The S&P 500 is trading at 14.1 times 12-month forward earnings and the S&P/TSX at 13.9 times. But these ratios are only as credible as the forward earnings estimate in the denominator. In none of the four U.S. recessions of the last 30 years have earnings grown in the year the recession began. The decline from peak to trough has ranged from 13% to 19%.

Considering that the U.S. economy is braking sharply at a time when profit margins are at a 40-year high, we take these expectations with a grain of salt. If, as we fear, the chances of the U.S. falling into recession are significant, new earnings downgrades are on the way. The harsh economic environment of late may force many companies to warn the market that their results will be below the analysts' forecasts.

S&P/TSX: LONGEST SEQUENCE OF EXCESS RETURN IN 45 YEARS

S&P/TSX RETURN MINUS S&P 500 RETURN IN CAD



Sources: NBC Economic Research, Datastream

The Canadian market: Diversity-challenged

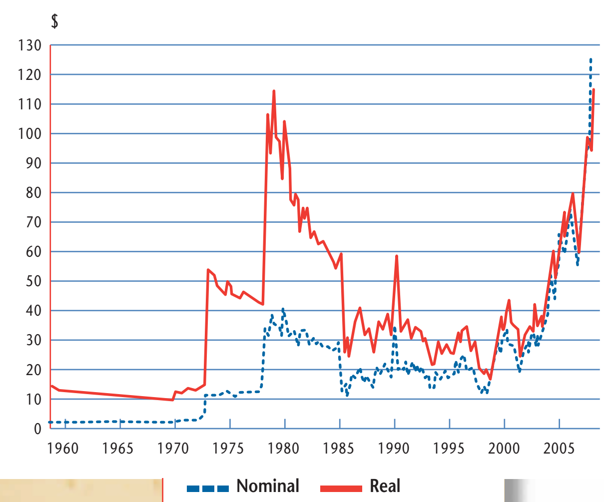
The S&P/TSX continues to ride the bull market in commodities. Since the beginning of the credit crunch last July, the Canadian benchmark has led all of the world's major indexes. It is the only developed-country index that is up from last July, outpacing even the other commodity-driven country markets.

Moreover, the S&P/TSX has beaten the S&P 500 in Canadian dollars in each of the last six years and is on track to do so again this year. This is the longest such run since at least 1960. How much longer can the Canadian equity market keep outperforming its U.S. counterpart?

The future of the Canadian market is closely tied to that of commodities. The correlation of the S&P/TSX with the CRB futures index is stronger than that of any other benchmark index. Surprisingly, even the Norwegian index (66.4% resources, compared to 50% for Canada) is less correlated with the CRB than the TSX is.

From the standpoint of fundamentals, however, the International Monetary Fund's forecasts of slower economic growth herald a retreat of commodity prices. The IMF has revised down its base case scenario for world growth to 3.7% in 2008 and 3.8% in 2009. The IMF also sees a 25% chance that growth will slip to 3% or less, which it calls "equivalent to a recession." Over the last 30 years, every slowdown in world growth has been accompanied by a retreat of commodity prices. With the fundamentals providing few catalysts, the Canadian equity rally could run out of gas.

OIL: WILL PRICES REVERT TO $75?



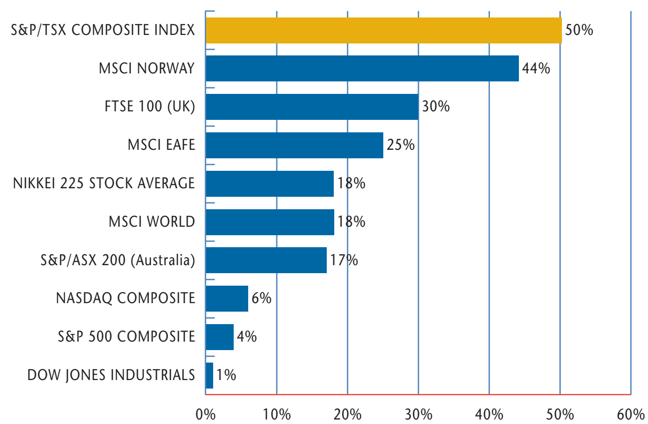
Source: Global Insight

Oil: Back to around $75 a barrel?

These days, there is no shortage of forecasts about how high oil prices are likely to go. With the growing presence of financial actors – hedge funds and so on – influencing the commodity market, our opinion is that the price of oil rose into very speculative territory when it recently topped $130 a barrel. Above and beyond some very legitimate concerns about the possibility of supply reductions due to geopolitical tensions in the Middle East, it is important to note that there is a time lag between oil price increases and their effect on demand. What's more, a number of Asian countries have attempted to shelter their citizens from higher costs through direct subsidies or by imposing artificially low interior prices at the pump. It now appears, however, that several emerging countries are putting an end to these interventions, with the result that demand in these countries will soon be showing the effects of sharp price increases. Judging by the current reaction of U.S. drivers, the next few months could easily bring a decline in global annualized gas consumption. In addition to this inevitable reaction from consumers, speculators will also be taking note of the Fed's intention to protect the greenback from the Commodities Futures Trade Commission's recent decision to monitor oil futures transactions. With all this in mind, our economic scenario and investment strategies use the basic assumption that the average price of oil will be in the range of US$75-$80 a barrel in the medium term.

S&P/TSX HIGHLY CORRELATED WITH COMMODITIES

1-YEAR CORRELATION OF WEEKLY INDEX RETURNS VS. REUTERS/JEFFERIES CRB INDEX



Sources: NBC Economic Research, Datastream, MSCI

What strategy for the second half?

North American equities have advanced almost 10% since mid-January. Our January 24 recommendation to stop underweighting equities was evidently the right call. At this point, however, we are not ready to yield to the siren song of resources.

Since investors seeking value over the long term should not put half their eggs in one basket (resources), we continue to advise underweighting Canadian equities and recommend diversification into foreign markets that are not driven by commodities.

In the U.S., we continue to think that the worst is over for financials. And since resource stocks account for "only" 18% of the S&P 500, the U.S. benchmark is less exposed to a pullback of commodity prices. We accordingly recommend a slight overweighting of U.S. equities.

In fixed-income securities, returns have been depressed by the recent rise of North American bond rates. We see little upside, since North American central banks will probably stay on the sidelines for a while to see how their recent easing affects the economy. Since we expect bond rates to be higher 12 months from now, we see limited potential for appreciation and recommend underweighting this asset class.

Main economic indicators

Annual % change (unless otherwise indicated)	2005	2006	2007	2008f	2009f
UNITED STATES					
Gross domestic product ($2000)	3.1	2.9	2.2	**1.2**	**1.6**
Employment	1.8	1.7	1.3	**-0.5**	**0.2**
Unemployment rate (%)	5.1	4.6	4.6	**5.5**	**6.1**
Inflation rate	3.4	3.2	2.9	**3.2**	**1.8**
Before-tax profits	11.5	13.2	2.7	**-7.2**	**2.6**
Demand components in real terms					
Consumer spending	3.2	3.1	2.9	**1.2**	**0.8**
Business investment	7.1	6.6	4.7	**0.1**	**0.8**
Public spending	0.7	1.8	2.0	**2.3**	**2.0**
Exports	6.9	8.4	8.1	**6.0**	**2.9**
Imports	5.9	5.9	1.9	**-1.9**	**1.1**
Financial sectors					
Target fed funds rate (%) year-end	4.25	5.25	4.25	**2.00**	**2.50**
10-year bonds (%) year-end	4.40	4.71	4.03	**3.78**	**4.55**
Yen / U.S. dollar, annual average	110	116	118	**95**	**93**
U.S. dollar / euro, annual average	1.24	1.26	1.37	**1.56**	**1.53**
CANADA					
Gross domestic product ($2002)	3.1	2.8	2.7	**1.4**	**1.8**
Employment	1.4	1.9	2.3	**1.5**	**0.9**
Unemployment rate (%)	6.8	6.3	6.0	**6.0**	**6.3**
Housing starts (thousands of units)	225	227	228	**212**	**194**
Inflation rate	2.2	2.0	2.2	**2.0**	**2.5**
Before-tax profits	11.9	5.0	5.8	**2.6**	**-4.0**
Current account balance ($ billion)	27.9	23.6	14.2	**1.9**	**-4.3**
Demand components in real terms					
Consumer spending	3.8	4.2	4.7	**3.8**	**2.5**
Business investment	10.8	9.9	4.4	**4.5**	**6.5**
Public spending	3.2	3.9	3.7	**4.1**	**2.5**
Exports	2.2	0.7	0.9	**-4.1**	**0.2**
Imports	7.5	5.0	5.7	**4.5**	**2.7**
Financial sectors					
Target overnight rate (%) year-end	3.25	4.25	4.25	**2.50**	**3.25**
10-year bonds (%) year-end	3.98	4.08	3.99	**3.70**	**4.30**
Canadian dollar (in U.S. cents) annual average	82.5	88.2	93.2	**96.6**	**100.0**

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Main economic indicators

REAL GDP

% growth	2005	2006	2007	2008f	2009f
Newfoundland & Labrador	0.2	3.3	9.1	**-2.0**	**3.7**
Prince Edward Island	1.3	2.6	2.0	**2.0**	**1.8**
Nova Scotia	1.8	0.9	1.6	**2.0**	**1.8**
New Brunswick	0.5	3.0	1.6	**1.8**	**1.4**
Quebec	2.0	1.7	2.4	**1.2**	**1.2**
Ontario	2.9	2.1	2.1	**0.5**	**1.2**
Manitoba	2.7	3.2	3.3	**3.7**	**2.5**
Saskatchewan	3.5	-0.4	2.8	**4.0**	**2.9**
Alberta	5.3	6.6	3.3	**3.0**	**3.2**
British Columbia	4.5	3.3	3.1	**2.4**	**2.5**

EMPLOYMENT

% growth	2005	2006	2007	2008f	2009f
Newfoundland & Labrador	-0.1	0.7	0.6	**2.3**	**0.5**
Prince Edward Island	2.0	0.5	1.2	**0.9**	**0.4**
Nova Scotia	0.2	-0.3	1.3	**0.8**	**0.7**
New Brunswick	0.1	1.4	2.1	**0.8**	**0.5**
Quebec	1.0	1.3	2.3	**0.9**	**0.9**
Ontario	1.3	1.5	1.6	**1.3**	**0.7**
Manitoba	0.6	1.2	1.7	**1.9**	**1.2**
Saskatchewan	0.8	1.7	2.1	**1.8**	**1.6**
Alberta	1.5	4.8	4.7	**2.6**	**1.3**
British Columbia	3.3	3.1	3.2	**2.1**	**1.1**

HOUSING STARTS

Thousands	2005	2006	2007	2008f	2009f
Newfoundland & Labrador	2.5	2.2	2.6	**2.6**	**2.7**
Prince Edward Island	0.9	0.7	0.8	**0.7**	**0.7**
Nova Scotia	4.8	4.9	4.8	**4.9**	**4.4**
New Brunswick	4.0	4.1	4.2	**3.9**	**3.6**
Quebec	50.9	47.9	48.6	**45.0**	**40.0**
Ontario	78.8	73.4	68.1	**72.0**	**64.0**
Manitoba	4.7	5.0	5.7	**5.6**	**5.6**
Saskatchewan	3.4	3.7	6.0	**5.6**	**5.3**
Alberta	40.8	49.0	48.3	**36.0**	**34.0**
British Columbia	34.7	36.4	39.2	**36.0**	**34.0**

f: forecast NBC Economic Research

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