



Economics

Avery Shenfeld
(416) 594-7356
avery.shenfeld@cibc.ca

Benjamin Tal
(416) 956-3698
benjamin.tal@cibc.ca

Peter Buchanan
(416) 594-7354
peter.buchanan@cibc.ca

Warren Lovely
(416) 594-8041
warren.lovely@cibc.ca

Meny Grauman
(416) 956-6527
meny.grauman@cibc.ca

Krishen Rangasamy
(416) 956-3219
krishen.rangasamy@cibc.ca

Provincial Growth: Bottom Hit, Where to Next?

by Warren Lovely

It's taken a year-and-a-half of downward revisions, but a bottom has finally formed in the outlook for Canadian economic growth. The consensus forecast for real GDP has recently coalesced around a 2½% contraction for 2009, as compared to the 2½% expansion anticipated a little more than a year ago (Chart 1). Ugly yes, but on par with the hit to Canadian GDP sustained during each of the last two major North American recessions.

Relative to national forecasts that get tweaked at least once a month, provincial outlooks aren't updated with the same frequency. So whether it's relative to official government projections or private sector calls put on the books during brighter days, provincial growth forecasts for 2009 are in many cases still a little optimistic (Chart 2). The same holds for 2010, where we see the economy walking before it runs, advancing at a modest 1½% pace and disappointing provincial Finance Ministers and the majority of private sector prognosticators who currently envision a 2%-plus recovery.

Recession More Broadly Based

While provincial performance is hardly uniform, today's global economic downturn has nonetheless left a mark on every region of the country. At the most macro level, CIBC anticipates all provinces, save Saskatchewan, will be subject to an outright decline in real GDP this year (Table 1). Such a slump would be more broadly based than in either of the past two recessions. Back in the early-1980s,

Atlantic Canada was spared the recession's painful grip, while a 1991 contraction was borne largely by Ontario, Québec and Manitoba, with half of the provinces avoiding decline.

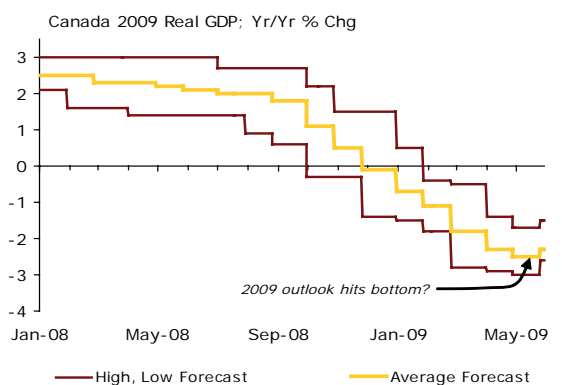
And in a notable departure from previous recessions, Canada is sustaining less economic damage than the US. Canada's provinces and municipalities have, by extension, absorbed a less debilitating hit compared to most US states and cities, where job losses, home foreclosures and government budget pressures are considerably more pronounced.

Trading Places in Central Canada

Ontario's 3.3% real GDP contraction accounts for a disproportionate share of Canada's 2009 stumble. While that builds on 2008 weakness, the two-year real GDP decline, at 3.7%, would still be less acute than the cumulative 5.6% retreat of the early 1990s.

Chart 1

Consensus Forecast Revised Lower



Source: Consensus Economics

<http://research.cibcwm.com/res/Eco/EcoResearch.html>

Chart 2
Budget Growth Forecasts Now Look Too High

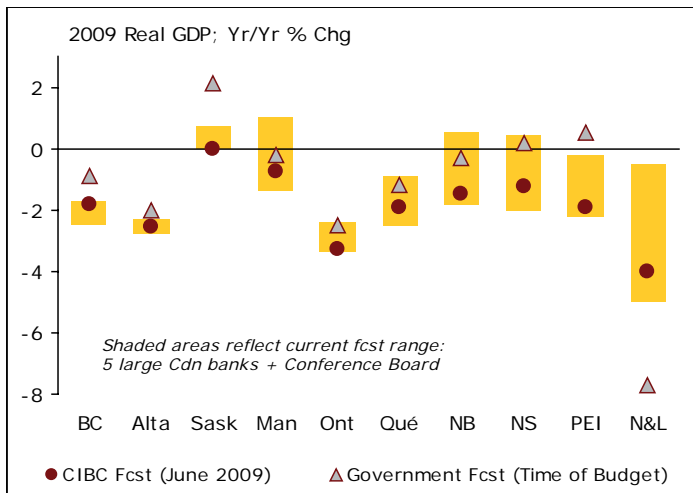
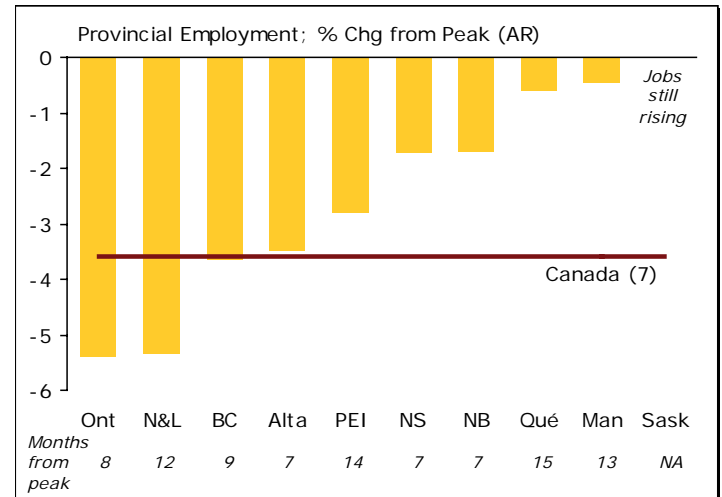


Chart 3
Ontario Has Seen Largest Job Loss



A government-sponsored auto bailout protects Canada's relative standing, but pronounced weakness in that high-profile industry has left its mark. Despite enduring a less painful adjustment, non-auto manufacturers can expect only a tentative near-term recovery, as American consumers adapt to shrinking payrolls, tighter credit and an increasing energy drag. A resurgent C\$ and trade protectionism fears add further clouds to the outlook.

A necessary emphasis on cost containment will leave private business striving for productivity gains, signaling further headcount reductions ahead. Additional job losses won't be limited to Ontario, mind you, nor would they be out of line with the path provincial employment followed during prior recessions (Chart 4). More positively, government stimulus efforts—monetary and fiscal, federal and provincial—will key a resumption of positive growth in 2010 and beyond, forestalling a repeat of the early- to mid-1990s jobless recovery.

Factory job losses tell the tale; Ontario manufacturing employment has plunged fully 30% from a late-2002 peak, and through Spring 2009, was continuing to fall at a 15% annual rate. As non-manufacturing sectors shed their earlier resilience, no province has seen a steeper decline in total employment relative to the recent cyclical peak (Chart 3), blunting wage growth and crimping consumer confidence.

Come 2010, Ontario still looks to be trailing Québec in real GDP growth (Chart 5). Québec's outperformance represents a notable reversal from the 1990s and early 2000s, and reflects a more diversified manufacturing base, lighter job losses and a less severe housing

Table 1
Real GDP Outlook

%	Actual 2008	CIBC Forecasts		Reference: Past Recessions	
		2009	2010	1982	1991
BC	-0.3	-1.8	2.0	-6.1	0.2
Alta	-0.2	-2.5	1.8	-3.2	0.5
Sask	4.4	0.0	2.2	-1.9	1.1
Man	2.4	-0.7	1.7	-2.6	-3.4
Ont	-0.4	-3.3	1.3	-2.7	-3.9
Qué	1.0	-1.9	1.6	-3.6	-2.7
NB	0.0	-1.5	1.7	1.9	0.0
NS	2.0	-1.2	1.8	3.7	-0.9
PEI	0.9	-1.9	1.0	0.9	-0.3
N&L	-0.1	-4.0	2.5	1.0	0.5
CDA	0.4	-2.5	1.5	-2.9	-2.1
US	1.1	-3.1	1.7	-1.9	-0.2

Note: Shading denotes annual decline in provincial real GDP

Chart 4
Ontario Job Losses vs. Past Recessions

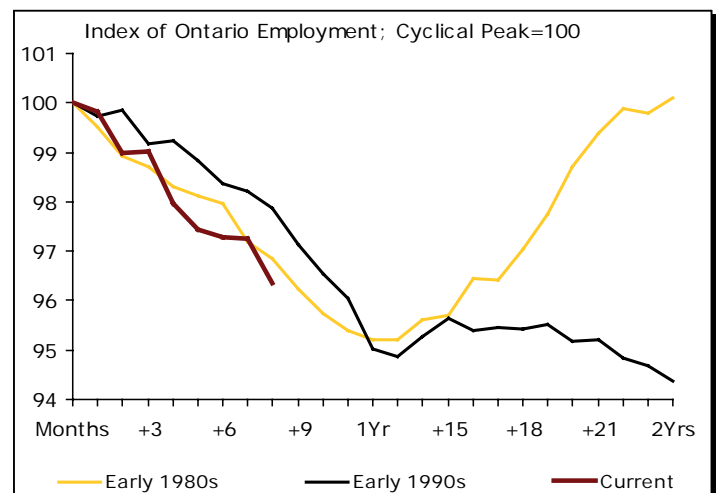
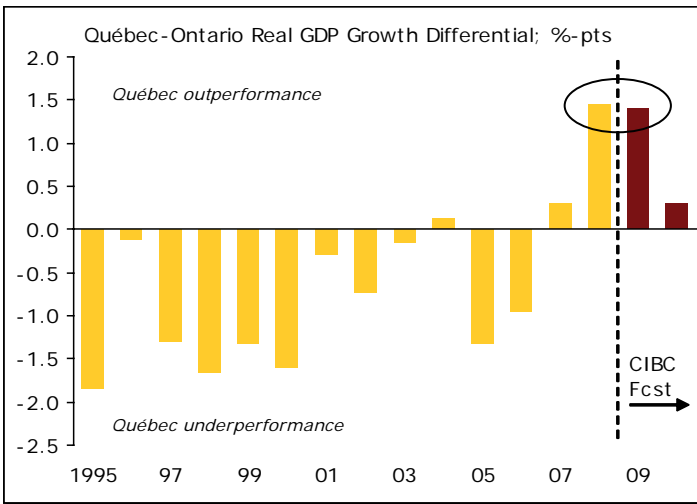


Chart 5
Québec Outperforms in Central Canada



pullback. An accelerated infrastructure program, including development of the province’s key renewable energy assets, has paid timely dividends, while a relative improvement in tax competitiveness aims to encourage private investment.

Capital Projects Colour Atlantic Canada Prospects

Further East, New Brunswick and Nova Scotia will see less pronounced weakness in 2009 real GDP growth, consistent with relatively healthier labour and housing markets. In New Brunswick, capital investment is cementing that province’s role as a key North American energy hub, while dramatic tax reform should lure business and support the province’s drive towards self sufficiency.

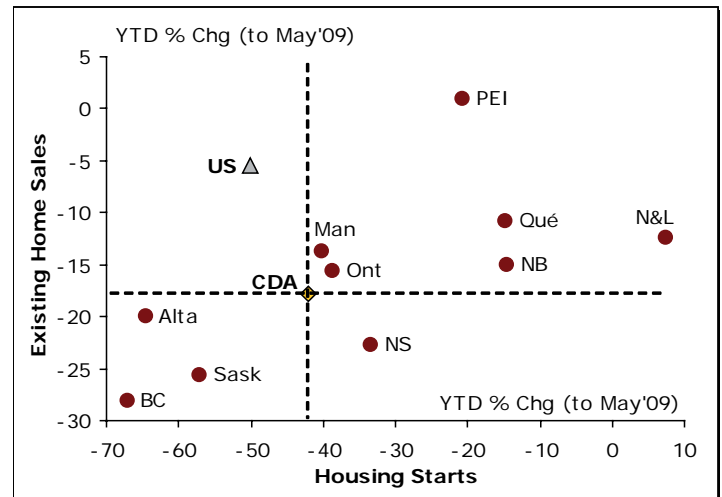
Nova Scotia’s diverse economy has seen growth in key service industries, including financial services, with resource development (including the much-anticipated Deep Panuke project) a plus.

Notwithstanding a 2009 production pullback, confidence is riding high in Newfoundland and Labrador. Improved job prospects have snapped a once-dominant pattern of out-migration, while resource-related income growth has delivered decisive outperformance in consumer spending and key housing market metrics (Chart 6).

Western Housing Correcting

As a global downturn savaged markets for some of Canada’s key commodities, parts of Western Canada saw

Chart 6
East Beats West in Housing

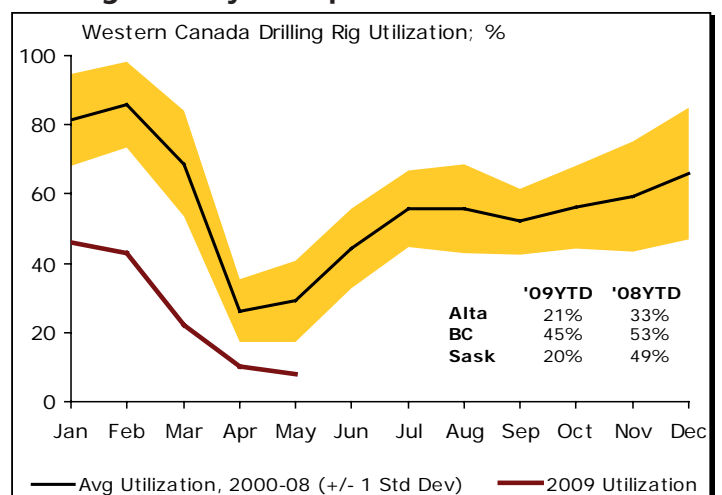


their previous boom violently halted. This has been most obvious in the energy industry, where projects have been delayed/shelved and drilling activity has slumped well-below ‘normal’ levels (Chart 7).

In Alberta and British Columbia, businesses have retrenched, job losses have climbed and housing markets have cracked. Witness pronounced declines in new and resale market activity. A dramatic pullback in housing construction, while an obvious drag on current economic activity, will ultimately staunch declines in house prices (Chart 8).

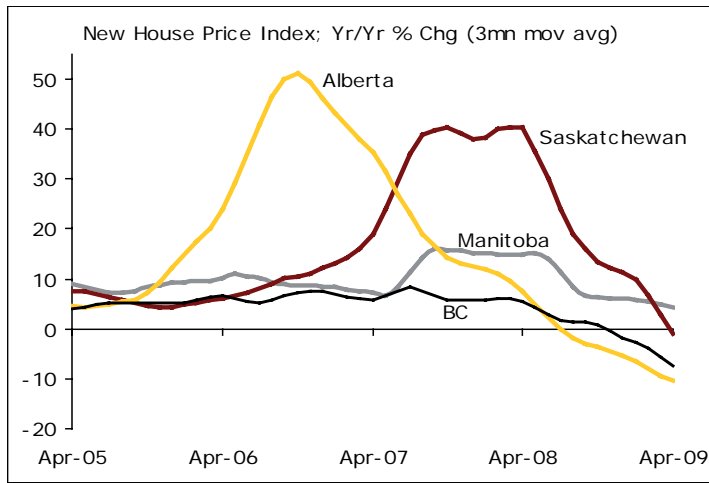
More recent commodity strength, if sustained, would be an obvious plus, particularly for Alberta and Saskatchewan, which are levered to oil. Prices for natural gas, the

Chart 7
Drilling Activity Slumps



Source: CAODC

Chart 8
House Prices Give Back Some Earlier Gains



predominant source of energy activity and royalties for BC, have languished in comparison. But the US housing market is bottoming—a relief for BC’s embattled forestry

industry—and the province can expect a modest boost from the 2010 Olympic Games.

For 2009, Saskatchewan remains Canada’s fastest-growing province, and should see its relative outperformance continue in 2010. House prices are no longer vaulting ahead, but the province’s still-solid jobs market is attracting would-be hires from other parts of the country and buoying Saskatchewan’s potential growth rate. Income growth remains unparalleled and government stimulus efforts are hitting their mark.

Economic activity in Manitoba, meanwhile, has held its own, consistent with the province’s track record of relatively stable growth. A diverse factory sector has weathered the US economic collapse, leaving labour and housing markets in better shape than most. Like Québec, the province is well positioned to benefit from an increasing focus on renewable energy, owing to the ongoing development of its vast hydro-electric potential.

Table 2
Provincial Economic Forecast

	Employment Yr/Yr % Chg			Unemployment Rate %			Retail Sales Yr/Yr % Chg			Housing Starts 000s Units			CPI Yr/Yr % Chg		
	2008A	2009F	2010F	2008A	2009F	2010F	2008A	2009F	2010F	2008A	2009F	2010F	2008A	2009F	2010F
BC	2.1	-2.4	0.9	4.6	7.6	8.1	0.3	-6.2	4.5	34.3	13.0	19.0	2.1	0.3	1.6
Alta	2.7	-0.8	0.6	3.6	6.3	6.9	-0.1	-7.9	4.2	29.0	13.0	18.5	3.2	-0.3	1.4
Sask	2.2	1.9	1.1	4.1	5.0	5.4	10.6	-2.6	5.0	6.8	3.1	4.0	3.2	0.9	1.9
Man	1.7	0.1	0.7	4.2	5.0	5.6	7.2	-2.7	4.0	5.6	3.4	4.5	2.2	0.6	1.5
Ont	1.4	-2.6	0.3	6.5	9.2	9.9	3.5	-2.9	3.4	75.6	48.4	53.5	2.3	0.5	1.4
Qué	0.8	-0.6	0.5	7.2	8.6	9.4	5.1	-2.7	3.6	47.9	41.5	46.0	2.1	0.5	1.5
NB	0.9	-0.1	0.6	8.6	9.1	9.8	5.9	-2.3	3.7	4.2	3.7	3.9	1.7	0.1	1.6
NS	1.2	0.0	0.8	7.7	9.1	9.6	4.2	-1.0	3.8	4.3	3.3	4.0	3.0	-0.4	1.5
PEI	1.3	-2.2	0.6	10.8	12.6	12.9	5.6	1.0	3.5	0.7	0.6	0.7	3.4	-0.4	1.4
N&L	1.5	-3.0	0.9	13.3	15.0	15.3	7.6	1.3	4.2	3.2	3.1	3.3	2.9	0.4	1.7
CDA	1.5	-1.6	0.5	6.1	8.3	9.0	3.4	-3.8	3.8	211	133	157	2.4	0.3	1.5

Conflicts of Interest: CIBC World Markets’ analysts and economists are compensated from revenues generated by various CIBC World Markets businesses, including CIBC World Markets’ Investment Banking Department. CIBC World Markets may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.

Legal Matters: This report is issued and approved for distribution by (i) in Canada by CIBC World Markets Inc., a member of the IDA and CIPF, (ii) in the UK, CIBC World Markets plc, which is regulated by the FSA, and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, “CIBC World Markets”). This report is distributed in the United States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange (“NYSE”), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Exchange Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets Inc. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient’s particular investment needs, objectives and financial circumstances. CIBC World Markets Inc. suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgements as of the date of this report and are subject to change without notice.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce (“CIBC”), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation (“FDIC”), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2009 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.