

**Conference Board of Canada**  
***Provincial Forecast, Autumn 2002***

October 21, 2002

The Conference Board of Canada  
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## Provincial Outlook **Autumn 2002**



# Economic Forecast

ECONOMIC PERFORMANCE AND TRENDS



Provincial Outlook: Economic Forecast  
*Autumn 2002*

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## Preface

The Provincial Outlook was prepared by Paul Darby, Director, and Marie-Christine Bernard, Associate Director, under the general direction of James Frank, Vice-President and Chief Economist.

The report examines the short-term economic outlook for the provinces including Gross Domestic Product (GDP), output by industry and labour market conditions. Background information for each province is also presented: the provincial credit rating, population, and the provincial fiscal position. At the end of report, there is a forecast for Canadian economic indicators and a comparison of GDP by province and industry.

The Provincial Outlook is updated each quarter using the Conference Board's large econometric model of the provincial economies which is linked to the Board's Canadian Model.

The publication can be accessed on-line at [www.conferenceboard.ca/boardwise](http://www.conferenceboard.ca/boardwise) and for clients subscribing to WEBlinx at [www.conferenceboard.ca/weblinx](http://www.conferenceboard.ca/weblinx). For more information, please contact our information specialists at (613) 526-3280 or 1-866-711-2262 or e-mail: [contactcboc@conferenceboard.ca](mailto:contactcboc@conferenceboard.ca)

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## EXECUTIVE SUMMARY

MARIE-CHRISTINE BERNARD

# Revival in Resource Industries Bolsters Outlook

## HIGHLIGHTS

- Record oil production and megaprojects to catapult growth in Newfoundland and Labrador.
- Quebec's economy to expand at a slower pace in 2003.
- A recovery in the manufacturing sector stimulates stronger growth for Ontario next year.
- A bounce-back in agriculture pushes growth in Manitoba and Saskatchewan.
- Outlook improving for British Columbia, but a full recovery will wait until next year.
- Construction projects to boost growth in New Brunswick and Nova Scotia in 2003.

The Canadian economy continues to churn out world-beating economic growth, defying the sense of uncertainty and gloom that seems to have gripped the globe. A barely noticeable growth pause expected at the start of 2003 will not deter the economy from the growth pace being set in 2002. Growth in gross domestic product (GDP) is forecast to reach 3.5 per cent this year and 3.4 per cent in 2003.

One of the clearest signals of Canada's current economic strength is the stellar pace of job creation this year. To date, over 400,000 jobs have been added to the rolls, largely in the manufacturing and construction sectors. Moreover, as the majority of these new jobs have been full-time positions, income growth has been significant. A more moderate pace of employment growth is expected in the closing months of 2002 and the first half of 2003, but domestic demand will be sustained in part by the incomes created by the positions now in place.

There is a near-term downside to the strong pace of GDP growth: as the increase in aggregate activity exhausts the spare capacity that opened up during the sluggish spell in 2001, the prospect of inflation will re-emerge. Aware of this, the Bank of Canada will seek to rein in growth to a more sustainable pace by removing today's considerable monetary stimulus before the end of the near term. To achieve this, the Bank is expected to

raise short-term interest rates by a total of 225 basis points through late 2003.

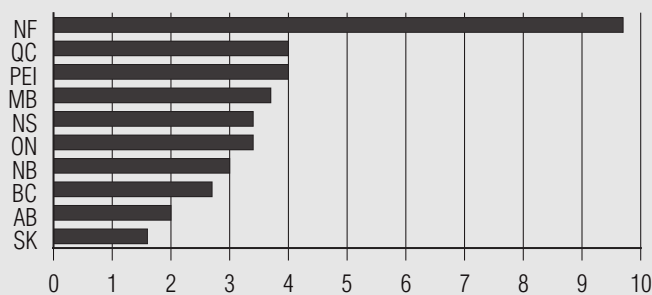
The sharp hike in borrowing costs will have a noticeable impact on the distribution of consumer spending, although the pace of aggregate consumption will remain decent in the near term. Interest-rate-sensitive goods, like automobiles, white goods and furnishings, will lose some of their lustre, giving way to a revival in consumption of services. At the same time, the housing market is expected to lose steam, once again lining up more closely to underlying demographic requirements. In contrast, business investment spending, on pause since 9/11, is forecast to roar to life next year.

The forecast for the external sector is more uncertain. The largest threat to near-term growth is the performance of the U.S. economy. The lack of employment growth, GDP performance notwithstanding, is the most significant threat to continued U.S. expansion. There is good reason to expect the U.S. job creation record to improve considerably in the coming months, although failure to do so will certainly derail the economy and cloud near-term Canadian export performance. The strong domestic economy is expected to give import growth the edge in the near term, bringing a slight reduction to real net exports.

All provinces will perform well and see growth near or above 3 per cent next year. A turnaround in resource-oriented industries and numerous energy developments will stimulate the outlook in many provinces over the near term.

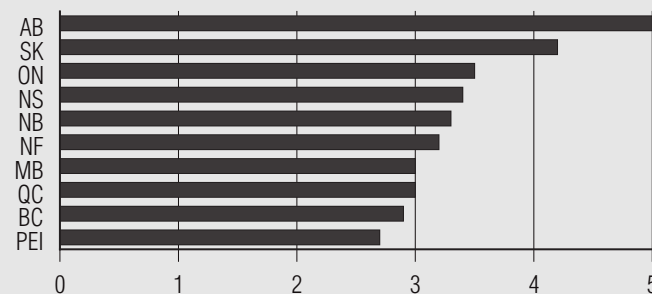
With an active labour market, firmer consumer demand and solid capital expenditures, the Ontario economy will not lose speed in 2003. Following a gain of 3.4 per cent in 2002, real GDP at basic prices for Ontario is expected to grow by 3.5 per cent in 2003 (see Charts 1 and 2). Quebec has benefited from stellar results on numerous fronts since the beginning of the year. With amazing labour and housing markets and double-digit growth in public investment, real GDP should grow by a strong 4 per cent in 2002, then moderate to a still decent 3 per cent in 2003 as the fiscal stimulus wears off.

**Chart 1**  
Real GDP at Basic Prices, by Province, 2002  
(1997 \$, percentage change)



Sources: Statistics Canada; The Conference Board of Canada.

**Chart 2**  
Real GDP at Basic Prices, by Province, 2003  
(1997 \$, percentage change)



Sources: Statistics Canada; The Conference Board of Canada.

With exceptional gains in oil production from Hibernia and Terra Nova, total real GDP in Newfoundland will jump by 9.7 per cent in 2002. More modest advances in oil output will moderate growth in the province to 3.2 per cent in 2003. The outlook nevertheless remains quite favourable, with the development of a third oil field and the advent of the Voisey's Bay mining project. With a bounce-back in agriculture, Prince Edward Island will also experience sturdy growth in 2002. However, real GDP growth will moderate from 4 per cent this year to 2.7 per cent in 2003 with softer perspectives in the primary industries.

The Saskatchewan economy posted negative economic growth in 2001, and a dismal 1.6 per cent gain is expected for 2002. Severe back-to-back droughts have hit the agriculture sector. However, with an expected rebound in crop production and firmer mining activities, real GDP in Saskatchewan is projected to go up by 4.2 per cent next year.

Unlike its neighbouring province, Manitoba was not affected by severe dry conditions in the agriculture sector this year. With solid domestic demand and an expanding manufacturing base, real GDP in the province is anticipated to grow by

3.7 per cent in 2002. With broad-based gains, economic activity is forecast to increase by 3 per cent in 2003.

Important energy developments will bolster the outlook in Atlantic Canada. Double-digit growth in the construction industry will lift real GDP to 3.4 per cent on average in Nova Scotia and New Brunswick next year. Nova Scotia will also benefit from robust offshore mining exploration activity.

Poor outcomes in the agriculture and oil and gas sectors kept the Alberta economy from enjoying solid economic growth this year. However, the domestic economy performed well, and real GDP in the province is projected to move up by 2 per cent in 2002. Economic growth will soar next year as solid consumer demand, a positive labour market, strong migration into the province, and firmer drilling intentions and oil production propel real GDP growth to a nation-leading 5 per cent.

The British Columbia economy is showing signs of improvement. However, the province is still feeling the damaging effects of punitive lumber tariffs and the slowly recovering U.S. economy. The export-oriented manufacturing sector is not expected to post decent growth until the latter half of 2003. The public sector will also be a drag on overall economic activity over the near term. Real GDP growth in British Columbia is projected to expand by 2.7 per cent in 2002 and by 2.9 per cent in 2003.

## U.S. ECONOMY

Considering that GDP growth was roughly the same in Canada and the United States in the six months following 9/11, the dearth of job creation in the United States over the last 18 months stands in marked contrast with Canada's employment surge. The jobless expansion over that period remains a perplexing fact, hard to explain and complicating near-term employment projections. The monthly U.S. employment numbers are being watched more closely by analysts, as it is clear that the economy will stall without a significant and sustained increase in employment. The lack of job growth has added to the renewed sense of gloom, threatening near-term consumption and investment spending.

The outlook for the U.S. economy has weakened considerably over the past few months. Real GDP is expected to expand by only 2.3 per cent this year and 3.1 per cent in 2003. This marks a significant downward revision from the Board's summer outlook, which foresaw real GDP growth of 3.7 per cent in 2003. The weaker outlook is mainly attributable to the slower pace of recovery in the U.S. manufacturing sector. Uncertainty has hobbled efforts to raise capital and has kept companies in a cost-cutting mode, constraining investment spending in most

sectors and crimping hiring plans. The recovery in 2003 will come from a rebound in investment spending and a revival in employment growth. Interest rates will remain low until at least the middle of next year.

Confidence will play a big role in the near-term outlook. In a typical cycle, recovery is usually accompanied by a burst of productivity growth, which leads companies to expand their capacity, not just by adding to their plant and equipment but by increasing their labour force. Both activities have been suppressed in the recent low-confidence period, and it seems that firms will be constrained until profits rebound. The latter have been held back by low final prices of goods and services, again a result of the gloomy general mood. This forecast expects a recognition of the economy's strong underlying fundamentals and a stabilization of the marketplace. Afterward (most likely in the first half of 2003), employment and investment activity will accelerate in a big way.

The risks to the current outlook are all on the downside. Failure of the recovery to take hold in either employment or investment could seriously derail the economy.

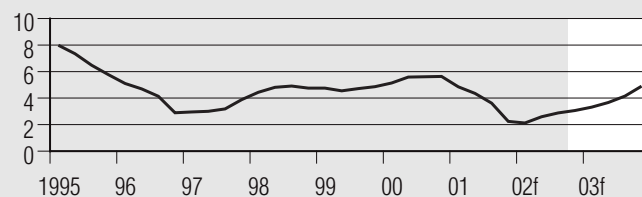
## NATIONAL OUTLOOK

### MONETARY POLICY

The response of Canadian consumers to the monetary stimulus introduced into the economy during 2001 has been remarkable. Consequently, GDP growth exceeded Canada's long-run potential growth rate in the first half of this year and appears set to continue at an above-potential pace through most of the near-term period. Although the weak growth seen in 2001 opened up a sizeable gap between actual and potential GDP, the current economic outlook projects a closure of this gap in mid 2003. At that point, if GDP growth continues to exceed potential, price pressures will set in. As such, the Bank of Canada is under significant pressure to raise interest rates in time to ease economic growth back to a sustainable path. This forecast assumes that the Bank will raise short-term interest rates by 225 basis points between now and December 2003 (see Chart 3).

Two recent developments are frustrating the Bank's attempts to retract monetary stimulus. First, after rising in the March–May period, yields on longer term bonds retreated, pushing 5-year conventional mortgage rates back to a new low and re-igniting demand for housing and big-ticket consumer goods. Second, a rally in the Canadian dollar sparked a few months ago by the increasing spread between Canada and U.S. short-term paper has proven short-lived. Although the yield on Canadian 90-day Treasury bills is currently 120 basis points greater than for its

**Chart 3**  
Aggressive Rate Hike Expected  
(90-day Treasury bill rate, per cent)



f = forecast

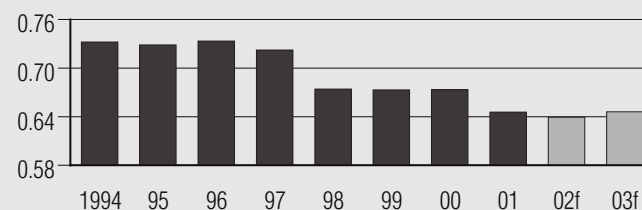
Sources: Bank of Canada; The Conference Board of Canada.

U.S. counterpart, the dollar, which had risen to U.S. \$0.66 in June, retreated back to U.S. \$0.635 in mid September and remained sluggish through October. The dollar's recent retreat eroded about half of the monetary tightening that occurred during the second quarter. Upcoming rate hikes by the Bank are expected to increase the Canada–U.S. short-term rate spread further, lifting the dollar close to U.S. \$0.65 by mid 2003. However, that is when the Fed is expected to raise rates aggressively, narrowing the rate spread and weakening the dollar once again. These near-term movements are expected to lift the dollar slightly from an average of U.S. \$0.639 this year to U.S. \$0.646 in 2003 (see Chart 4).

### FISCAL POLICY

The profile of government sector revenues and expenditures has changed little since the last forecast, owing to the lack of new policy announcements in recent months. However, surprises in the historical data, including revisions to past data, have changed budget balance estimates somewhat. Considerably lower federal interest payments on the debt and transfers to the provinces in the first half of the year have weakened the expenditure growth projection for 2002, boosting the estimate of the federal surplus. The opposite is true for the provinces, where transfers from the federal government are a revenue item. Consequently, the consolidated provincial balance is lower than in our last forecast, remaining in deficit in the near term.

**Chart 4**  
Dollar Remains Weak  
(\$ U.S. per \$ Cdn., cents)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

## SYNOPSIS

MARIE-CHRISTINE BERNARD

# La reprise du secteur primaire rehausse les perspectives

## FAITS SAILLANTS

- Une production de pétrole record et des mégaprojets devraient doper la croissance à Terre-Neuve et au Labrador.
- L'économie du Québec devrait croître à un rythme plus lent en 2003.
- Une reprise dans le secteur manufacturier devrait stimuler la croissance en Ontario l'an prochain.
- L'agriculture rebondit et entraîne la croissance au Manitoba et en Saskatchewan.
- Les perspectives s'améliorent pour la Colombie-Britannique, mais il faudra attendre l'an prochain pour une reprise complète.
- Des projets de construction devraient donner un coup de fouet à la croissance au Nouveau-Brunswick et en Nouvelle-Écosse en 2003.

L'économie canadienne continue de connaître la croissance la plus forte du monde, défiant ainsi le sentiment d'incertitude et de morosité qui semble avoir envahi la planète. Une pause, à peine décelable, de cette croissance, prévue au début de 2003, n'empêchera pas l'économie de maintenir le rythme de croissance instauré en 2002. D'après les prévisions, la croissance du produit intérieur brut (PIB) devrait atteindre 3,5 p. 100 cette année et 3,4 p. 100 en 2003.

L'un des signes les plus clairs de la vitalité actuelle de l'économie canadienne est l'excellent rythme de créations d'emplois, cette année. À ce jour, plus de 400 000 emplois sont venus s'ajouter à ceux déjà existants, en grande partie dans les secteurs manufacturiers et de la construction. De plus, comme ces emplois sont, dans leur majorité, des emplois à plein temps, la croissance des revenus a été conséquente. On s'attend à un certain ralentissement de la création d'emplois dans les derniers mois de 2002 et la première moitié de 2003, mais la demande intérieure sera soutenue en partie par les revenus issus des emplois déjà créés.

Ce rythme soutenu de la croissance du PIB présente un inconvénient à court terme : comme l'augmentation de l'activité

dans son ensemble épuise la réserve de capacité qui s'était formée pendant la période de ralentissement en 2001, il y a une chance de voir réapparaître l'inflation. Consciente de cela, la Banque du Canada va essayer de ramener la croissance à un rythme plus soutenable en annulant l'importante source actuelle de stimulation monétaire dans un avenir proche. On s'attend donc à ce qu'elle relève les taux d'intérêt à court terme d'un total de 225 points de base au cours des derniers mois de 2003.

Cette forte augmentation des coûts d'emprunt aura un impact sensible sur la répartition des dépenses des consommateurs, même si le rythme de la consommation dans son ensemble restera très correct à court terme. Les biens de consommation sensibles aux taux d'intérêt, comme les automobiles, les appareils ménagers et les meubles, perdront de leur attrait au profit des services, qui connaîtront une recrudescence. Dans le même temps, on s'attend à ce que le marché du logement perde de la vitesse, revenant à un niveau plus proche des besoins démographiques sous-jacents. À l'opposé, les dépenses d'investissement des entreprises, en panne depuis le 11 septembre, devraient en retrouver de la vigueur l'an prochain.

Les prévisions pour le marché extérieur sont plus incertaines. La principale menace pour la croissance à court terme est le rendement de l'économie américaine. La stagnation du marché de l'emploi, quelle que soit la croissance du PIB, par ailleurs, représente le principal handicap à la progression continue des États-Unis. Il y a tout lieu de penser que la création d'emplois va considérablement s'améliorer aux États-Unis dans les prochains mois, faute de quoi, l'économie va certainement dérailler et le rendement à court terme du Canada en matière d'exportations s'assombrir. La forte demande intérieure devrait donner l'avantage à l'importation, à court terme, provoquant une légère réduction du volume net réel des exportations.

Toutes les provinces vont connaître de bons résultats et auront une croissance approchant ou dépassant 3 p. 100, l'an prochain. Une reprise dans le secteur primaire ainsi que de nombreux projets énergétiques vont avoir un effet très positif sur les perspectives à court terme dans beaucoup de provinces.



Avec un marché du travail actif, une demande de consommation plus soutenue et de solides dépenses de capital, l'économie en Ontario ne va pas ralentir en 2003. Après un gain de 3,4 p. 100 en 2002, le PIB réel aux prix de base pour l'Ontario devrait augmenter de 3,5 p. 100 en 2003 (voir les graphiques 1 et 2). Le Québec connaît d'excellents résultats dans de nombreux domaines depuis le début de l'année. Avec d'étonnants marchés du travail et du logement ainsi qu'une croissance à deux chiffres de l'investissement public, le PIB réel devrait croître d'un solide 4 p. 100 en 2002, puis se stabiliser autour d'un très correct 3 p. 100 en 2003 au fur et à mesure que l'effet des mesures de stimulation financière s'estompera.

Avec des gains exceptionnels dans la production pétrolière d'Hibernia et de Terra Nova, le PIB réel total de Terre-Neuve fera un bond de 9,7 p. 100 en 2002. Une augmentation plus modeste de la production pétrolière modérera la croissance dans la province à 3,2 p. 100 en 2003. Les perspectives restent, cependant, très favorables, avec l'exploitation d'un troisième champ de pétrole et l'avancée du projet minier de Voisey's Bay. Avec une reprise de l'agriculture, l'Île-du-Prince-Édouard connaîtra aussi une croissance vigoureuse en 2002. Cependant, la croissance du PIB réel baissera de 4 p. 100 cette année à 2,7 p. 100 en 2003 à cause de perspectives moins favorables pour le secteur primaire.

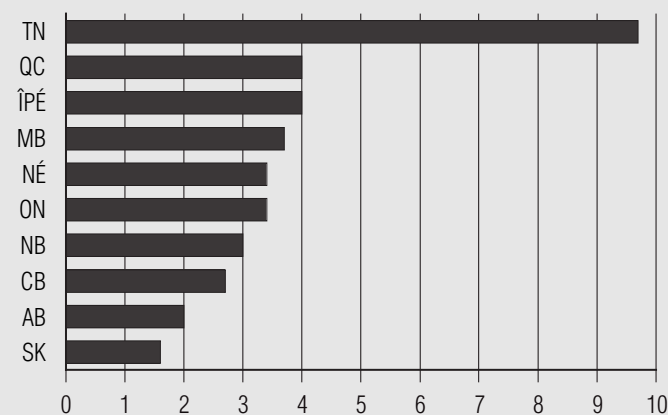
L'économie de la Saskatchewan a affiché une croissance économique négative en 2001 et un piètre gain de 1,6 p. 100 est attendu en 2002. Deux importantes sécheresses de suite ont frappé le secteur de l'agriculture. Toutefois, une reprise attendue de la production agricole et une activité minière plus soutenue devraient faire monter le PIB réel de la province de 4,2 p. 100 l'an prochain.

Contrairement à sa province voisine, le Manitoba n'a pas souffert des sécheresses dans le secteur agricole, cette année. Avec une demande intérieure solide et une base manufacturière en progression, le PIB réel dans la province devrait croître de 3,7 p. 100 en 2002. Avec des gains généralisés, l'activité économique devrait croître de 3 p. 100 en 2003.

D'importants projets énergétiques vont rehausser les perspectives pour les provinces de l'Atlantique. Une croissance à deux chiffres dans l'industrie de la construction devrait relever le PIB réel à 3,4 p. 100 en moyenne en Nouvelle-Écosse et au Nouveau-Brunswick l'an prochain. La Nouvelle-Écosse bénéficiera aussi d'une solide activité d'exploration minière au large des côtes.

**Graphique 1**

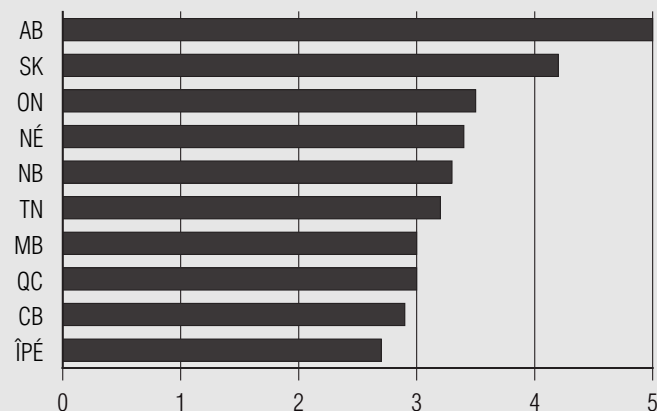
PIB réel aux prix de base, par province, en 2002  
(en dollars de 1997, variation en pourcentage)



Sources : Statistique Canada; Le Conference Board du Canada.

**Graphique 2**

PIB réel aux prix de base, par province, en 2003  
(en dollars de 1997, variation en pourcentage)



Sources : Statistique Canada; Le Conference Board du Canada.

L'Alberta n'a pas pu profiter d'une croissance économique solide, cette année, à cause d'une production médiocre dans les secteurs de l'agriculture et du pétrole et du gaz. Cependant, l'économie interne a eu un bon rendement et le PIB réel de la province devrait progresser de 2 p. 100 en 2002. La croissance économique devrait connaître une forte hausse, l'an prochain, grâce à une forte demande de consommation, un marché du travail positif, une forte immigration et des intentions de forages et de production de pétrole plus fermes. Tous ces facteurs devraient propulser la croissance du PIB réel à 5 p. 100, ce qui en ferait la croissance la plus forte du pays.

L'économie de la Colombie-Britannique montre des signes d'amélioration. Cependant, la province ressent encore les effets préjudiciables des tarifs douaniers pénalisants sur le bois et du lent rétablissement de l'économie américaine. Le secteur

manufacturier tourné vers l'exportation ne devrait pas afficher une croissance appréciable avant la seconde moitié de 2003. Le secteur public sera aussi un frein à l'activité économique globale à court terme. La croissance du PIB réel en Colombie-Britannique devrait s'élever de 2,7 p. 100 en 2002 et de 2,9 p. 100 en 2003.

## L'ÉCONOMIE AMÉRICAINE

Compte tenu du fait que la croissance du PIB a été sensiblement la même au Canada et aux États-Unis au cours des six mois qui ont suivi le 11 septembre, la très faible création d'emplois aux États-Unis au cours des 18 derniers mois contraste avec l'envolée de l'emploi au Canada. La croissance de l'économie sans création d'emplois au cours de cette période est un phénomène étonnant, difficile à expliquer et qui complique les projections sur l'emploi à court terme. Les analystes étudient de plus près les chiffres mensuels de l'emploi, car il apparaît clairement que, sans une augmentation substantielle et durable du nombre d'emplois, l'économie va marquer un temps d'arrêt. L'absence de création d'emplois a rajouté au sentiment de morosité, menaçant la consommation et les dépenses d'investissement à court terme.

Les perspectives pour l'économie américaine se sont considérablement affaiblies depuis quelques mois. Le PIB réel devrait progresser seulement de 2,3 p. 100 cette année et de 3,1 p. 100 en 2003. Cela signifie une révision conséquente à la baisse des prévisions du Conference Board de l'été dernier, qui annonçaient une croissance du PIB réel de 3,7 p. 100 en 2003. Les perspectives révisées sont essentiellement attribuables à la trop lente reprise du secteur manufacturier américain. L'incertitude a entravé les efforts pour augmenter le capital et a maintenu les entreprises dans une attitude de réduction des coûts, réduisant les investissements et retardant les plans de recrutement. Le rétablissement de la situation en 2003 viendra de la reprise des investissements et du retour de la croissance de l'emploi. Les taux d'intérêt resteront bas au moins jusqu'au milieu de l'année prochaine.

La confiance jouera un rôle essentiel dans les perspectives à court terme. Selon un cycle normal, la reprise s'accompagne d'une explosion de la productivité, ce qui pousse les entreprises à accroître leur capacité, pas seulement en agrandissant leur usine et en s'équipant davantage, mais aussi en augmentant leur main-d'œuvre. Ces deux activités ont été arrêtées au cours de la période récente de confiance réduite et il semble que les entreprises seront freinées tant que les profits ne reviendront pas. Ces derniers ont été bloqués par les bas prix finaux des biens et des services, encore une conséquence de la morosité générale. Le Conference Board s'attend à une reconnaissance

de la solidité des fondements économiques et à une stabilisation du marché du travail. Par la suite (vraisemblablement au premier semestre 2003), l'emploi et l'investissement connaîtront une accélération conséquente.

S'il y a risque d'erreur dans ces prévisions, c'est plutôt à la baisse. Faute d'une reprise, que ce soit dans le domaine de l'emploi ou celui de l'investissement, l'économie pourrait dangereusement dérailler.

## PRÉVISIONS NATIONALES

### LA POLITIQUE MONÉTAIRE

La réponse des consommateurs canadiens à la mesure de stimulation monétaire introduite dans l'économie au cours de 2001 a été remarquable. En conséquence, la croissance du PIB au Canada a dépassé le taux prévu à long terme au cours de la première moitié de cette année et semble bien partie pour continuer à un rythme supérieur à la capacité pour une grande partie de l'avenir immédiat. Bien que la faible croissance enregistrée en 2001 ait creusé un écart non négligeable entre le PIB réel et le PIB potentiel, les perspectives économiques actuelles laissent envisager le comblement de cet écart au milieu de 2003. À ce moment-là, si la croissance du PIB continue de dépasser la capacité, une pression sur les prix se fera sentir. À ce titre, la Banque du Canada est donc soucieuse de relever les taux d'intérêt à temps pour ramener la croissance économique à un rythme plus soutenable. Nous prévoyons qu'elle relèvera les taux à court terme de 225 points de base entre aujourd'hui et décembre 2003 (voir le graphique 3).

Deux récents développements entravent les tentatives de la Banque pour retirer la mesure de stimulation monétaire. Tout d'abord, après avoir connu une hausse entre mars et mai, les rendements des bons à plus long terme ont chuté, entraînant de nouveau à la baisse les taux d'emprunts hypothécaires conventionnels sur cinq ans et relançant la demande de logements et de gros achats. Ensuite, la reprise du dollar canadien, stimulée, il y a quelques mois, par l'écart croissant entre les titres de créance à court terme canadiens et américains, n'a pas duré longtemps. Bien que le rendement des bons du Trésor canadiens à 90 jours dépasse actuellement de 120 points de base celui des bons américains, le dollar, à 0,66 \$ U.S. en juin, est redescendu à 0,635 \$ U.S. à la mi-septembre et a stagné jusqu'à fin octobre. Le recul récent du dollar a amoindri de moitié environ le resserrement monétaire qui s'est produit au deuxième trimestre. Les relèvements à venir des taux par la Banque du Canada devraient accentuer encore plus l'écart entre les taux à court terme canadiens et américains, faisant monter le dollar à près de 0,65 \$ U.S. d'ici au milieu de 2003. Cependant, c'est à ce

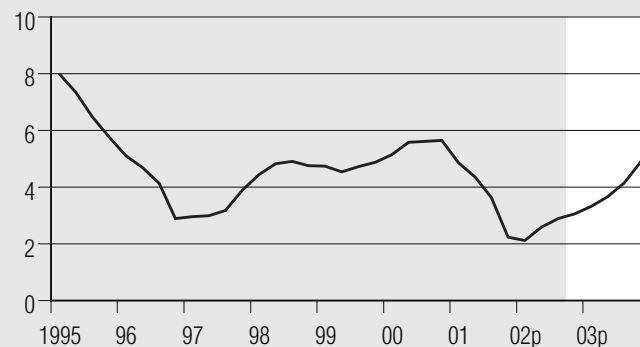
moment-là que la Réserve fédérale américaine devrait relever les taux de manière agressive, réduisant ainsi l'écart des taux et affaiblissant le dollar une fois de plus. Ces mouvements à court terme devraient faire légèrement monter le dollar de 0,639 \$ U.S. cette année à 0,646 \$ U.S. en 2003 (voir le graphique 4).

## LA POLITIQUE FINANCIÈRE

Le profil des revenus et des dépenses du secteur public a peu changé depuis la dernière note de conjoncture à cause de l'absence d'annonces de nouvelles politiques au cours des derniers mois. Cependant, des surprises dans les données historiques, y compris des révisions de données antérieures, ont quelque peu modifié les estimations quant au solde budgétaire. Des réductions considérables des remboursements de l'intérêt sur la dette et des transferts aux provinces pendant la première moitié de l'année ont diminué les prévisions de croissance de dépenses pour 2002, faisant monter les estimations de l'excédent fédéral. C'est le contraire qui se passe pour les provinces, où les transferts fédéraux sont une source de revenu. En conséquence, le bilan consolidé des provinces est plus bas que dans nos dernières prévisions et reste en déficit à court terme.

### Graphique 3

On s'attend à une forte augmentation des taux  
(Taux des bons du Trésor de 90 jours, en pourcent)

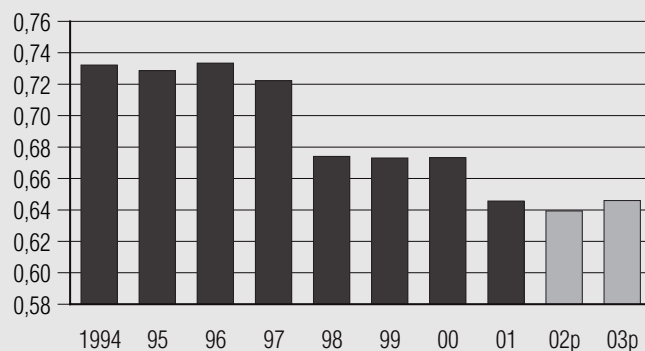


p = prévision

Sources : Banque du Canada; Le Conference Board du Canada.

### Graphique 4

Le dollar reste faible  
(\$ US par \$ CAN, en cents)



p = prévision

Sources : Statistique Canada; Le Conference Board du Canada.

## Newfoundland and Labrador

- Mineral fuel growth from Hibernia and Terra Nova continue to boost the province's bottom line.
- Non-residential investment expenditure to be driven by Voisey's Bay and White Rose in 2003.

### Real GDP

<b>2002</b>	Growth 9.7	Ranking #1
<b>2003</b>	Growth 3.2	Ranking #6

### Credit Quality

**A-**  
Standard & Poor's

### Retail Sales

<b>2002</b>	Growth 3.0	Ranking #10
<b>2003</b>	Growth 3.3	Ranking #9

### Government & Background Information

Premier	Roger Grimes
Next election	2003
Population (July 1, 2001)	533,849
Government balance (2002-03)	-\$93 million

Source: The Conference Board of Canada.

## THE ECONOMY SURGES AHEAD

Monique Brugger

Newfoundland's real gross domestic product (GDP) output will surge by 9.7 per cent this year and grow by a further 3.2 per cent in 2003. This outlook represents an improvement of a full percentage point this year and 0.4 per cent next year. These improved prospects rest almost entirely on better-than-anticipated mineral fuel output from the Hibernia oil field, which will result in 86.4 per cent growth in the mineral fuels sector.

Another area of growth in the goods-producing industries remains the construction industry, fuelled by double-digit growth in housing starts and some initial construction activity for both the Voisey's Bay nickel project and the White Rose Floating Production and Storage Offloading facility (FPSO). Total real GDP in the province's goods-producing industries will grow by an impressive 25.1 per cent this year and a further 4.1 per cent in 2003.

Output in the service-producing industries, however, will remain relatively modest over the forecast period, as it will grow by 2.6 per cent this year and a further 2.7 per cent in 2003. The transportation, warehousing and information sector will benefit from increasing mineral fuel output, although shipments of manufactured goods, especially in the food manufacturing sector,

have been falling somewhat since the end of the second quarter. Furthermore, strong employment growth this year and next will help to keep both retail sales and personal income growth solid.

### THE OIL OUTLOOK

The outlook for Newfoundland and Labrador is dominated by a number of new projects, which will help boost real GDP output in key goods-producing industries, namely mining and construction. In the mining sector, oil production from the province's two major projects, Hibernia and Terra Nova, are quickly advancing mineral fuel production in the province.

At Hibernia, it has been a banner year. Unanticipated volumes of gas production put growing pains in the way of the production of oil last year, when there was no infrastructure to store the gas, so it had to be re-injected into the reservoir. However, a new gasflood production well was drilled early this year, allowing oil production to quickly ramp up. It is now anticipated that Hibernia will produce 64.5 million barrels per year, an increase of 17 per cent over 2002. The production facility experienced a two-week closure for routine maintenance in September; thus the Conference Board expects production for the third quarter to be about 10 per cent lower than in the second quarter.

Following several delays, oil production at the Terra Nova FSOP finally came on stream in January of this year. Production quickly ramped up in the second quarter

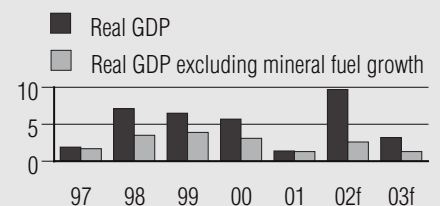
**The Newfoundland and Labrador outlook is dominated by new projects.**

### Economic Indicators (percentage change)

	2001	2002	2003
<b>Real GDP (basic prices)</b>	1.4	9.7	3.2
<b>Consumer price index</b>	1.1	2.2	2.0
<b>Personal disposable income</b>	3.5	5.4	3.3
<b>Employment</b>	3.3	2.3	1.7
<b>Unemployment rate</b>	16.2	16.0	14.1
<b>Retail sales</b>	9.3	3.0	3.3
<b>Average weekly wages</b>	2.0	2.2	2.4
<b>Population</b>	-0.7	-0.5	-0.6

Source: The Conference Board of Canada.

### Real GDP Output Skyrockets with Oil Production (1997 \$, percentage change)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

and increased by 56 per cent over the first quarter to average approximately 45 million barrels per year. Routine maintenance during the first three weeks of August kept production levels lower in the third quarter. Currently, Terra Nova is permitted to produce an average of only about 37 million barrels per day, but later this year producers may apply to increase its production quota to approximately 49.5 million barrels per day.

Even taking into account the down time for scheduled maintenance, total oil production in the province this year will easily exceed the provincial government's forecast of 87 million barrels per day. The increase in oil production from Hibernia and Terra Nova will boost real GDP for mineral fuel production by 86.4 per cent in 2002 and by a further 2.9 per cent in 2003.

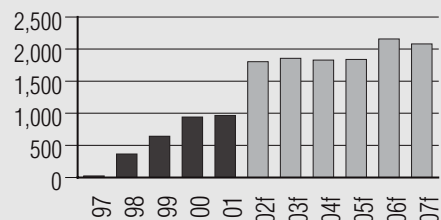
Services incidental to mining will also benefit from the increase in oil production over the forecast period. Furthermore, both Husky Energy Inc. and Canadian Imperial Venture Corp. are currently drilling off the coast of Newfoundland—Husky in the Jeanne d'Arc Basin and Imperial in the Port au Port Peninsula. Consequently, mining services will grow by 7.9 per cent this year and by a further 3.3 per cent in 2003.

## MAJOR PROJECTS HIGHLIGHT THE GOODS-PRODUCING INDUSTRIES

Late this year, construction will begin on Newfoundland's third offshore petroleum project, White Rose. However, most of the benefit to the construction industry will occur in only in 2003. Project partners Husky energy (72.5 per cent) and Petro Canada (27.5 per cent) have already awarded several major contracts for construction of the FPSO. Construction of the topside modules will occur in the province, including related engineering, construction and installation. The FPSO is expected to be complete by the end of 2005, with first oil flowing shortly thereafter.

This past June, the provincial government finally agreed to allow nickel giant Inco Ltd. to proceed with the development of the massive nickel deposit at Voisey's Bay in Labrador. Some initial construction work is already under way, preparing the site for construction of the mine and concentrator mill. Preliminary road construction, a landing strip and other facilities will be built this year. Construction of the open pit mine will take place between spring 2003 and mid 2006, as will construction of the mill-concentrator processing facility. The mill-concentrator processing plant will be capable of processing 6,000 tonnes of ore per day and will produce two separate

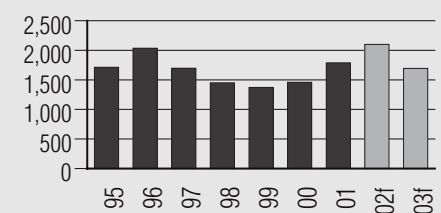
Full Steam Ahead for Hibernia and Terra Nova  
(mineral fuels output, 1997 \$ millions)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

Housing Starts to Decelerate  
(units)



f = forecast

Sources: CMHC; The Conference Board of Canada.

concentrate streams: a copper concentrate and a nickel-copper-cobalt concentrate. Both projects will benefit total private and public non-residential investment expenditures, which will grow by 10.9 per cent this year and a further 19.3 per cent in 2003.

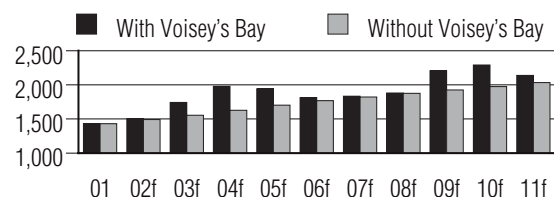
## SPECIAL ISSUE

### VOISEY'S BAY INVESTMENT PROFILE

The debate surrounding the approval by the provincial government to allow nickel giant Inco Ltd. to develop the massive nickel reserves at Voisey's Bay in Labrador has forced politicians and citizens to remember the bitter pill the province was forced to swallow following the Churchill Falls agreement with the province of Quebec. However, Premier Roger Grimes insists that this time the government has got it right. It has been estimated that the \$2.9 billion project will add \$11 billion to the province's GDP over the life of the project. Included in this is the creation of 2,000 jobs, the construction of a mine, mill and concentrator in Labrador, and in the longer run a hydromet processing facility in Argentina, Newfoundland. The final deal will see 400,000 tonnes of nickel concentrate shipped out of the province for processing until the facility is built in Argentina. If the new but unsure hydromet chemical processing technique proves unfeasible, a processing facility will still be built, but the ore will be sent out of the province for smelting and brought back for finishing.

Over the longer run, the construction of the mine, mill and concentrator at Voisey's Bay will have a significant impact on the province's investment in non-residential and machinery and equipment expenditures. The graph shows expenditure on total investment in the province for the construction of the mine, mill, concentrator and the eventual hydromet facility.

Voisey's Bay Investment Profile  
(non-residential and M&E investment, \$ millions)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

Over the longer term, if the technology proves feasible, an \$800 million hydromet processing facility will be constructed in Argentia, Newfoundland, beginning in 2008. Until then, the province has agreed to allow Inco to transport copper, cobalt, and nickel concentrate to the processing facilities in Sudbury, Ontario, and Thompson, Manitoba.

### HOUSING STARTS TO DECELERATE

The province's housing sector continues to defy expectations. Following a dip in starts in August, September numbers continued to be robust. Total housing starts are up by 17.4 per cent on an annual basis over last year.

However, with current low interest rates expected to rise next year, it is very unlikely that the current high level of housing starts will be maintained over the forecast period.

Furthermore, a tightening in the resale market has helped to spur the construction of new homes and increase the average resale price of a home. It is expected that housing starts will fall by 19.2 per cent next year. Luckily, a decrease in the number of housing starts will not have a serious impact on the province's construction sector in 2003, as both White Rose and Voisey's Bay will pump the sector significantly. In all, construction will advance by 4.1 per cent this year and by a further 9.4 per cent in 2003.

### FISHING AND TRAPPING KEEP MANUFACTURING AFLOAT

Total fish landings for 2002 were 6.3 per cent higher in July than a year earlier. For the province, the most important species is crab. July year-to-date crab landings were just over 13 per cent higher than for the same period last year. It is anticipated that an increase in quotas will allow total crab landings for the year to be only marginally higher than last year. Landings in the shrimp fishery are also about 13 per cent higher than in 2001, but this is due in large part to the mid-year closure of the shrimp fishery in 2001. As a result, monthly shipments of food products, which include seafood product preparation and packaging,

remained relatively strong in the second quarter of the year but have been falling somewhat since then.

Manufacturing output will grow by 1.9 per cent in 2002 and 2.9 per cent in 2003, thanks in large part to strong fishing and trapping growth.

### GROWTH IN SERVICES REMAINS MODEST

Increasing production from both the Hibernia oil field and Terra Nova will have a positive impact on real GDP output in the transportation, warehousing and information sector. The sector will

grow in excess of 4 per cent in 2002, and growth will reach almost 5 per cent next year. A commitment has been made by the provincial government to clean up the St. John's harbour. The harbour has long been

regarded as one of the most polluted bodies of water in the

country, and the government wants to make the city more attractive to the cruise ship industry. The clean-up project will cost close to \$100 million and take over six years to complete. This should have a positive impact on the province's tourism industry in the long run. Retail sales are still suffering from the deceleration in the tourism industry following some major successful events in recent years, combined with an overall slump in worldwide tourism. On the whole, real GDP in the service-producing industries will grow by 2.7 per cent in 2003, a slight improvement over this year.

**The province's employment sector will not reflect the sharp increase in total real GDP output expected this year.**

### EMPLOYMENT GROWTH TO DECELERATE

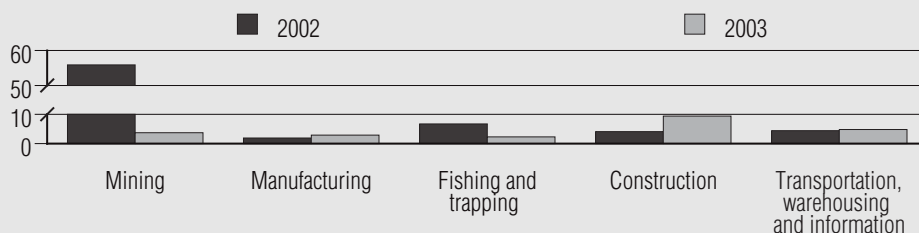
Unfortunately, the province's employment will not reflect the sharp increase in total real GDP output expected for this year, as the energy sector is not very labour-intensive. Nevertheless, confidence is growing among job seekers. Total employment will rise by 2.3 per cent this year and by a further 1.7 per cent next year. The largest drop in the unemployment rate, however, will occur only next year, as fewer individuals enter the labour force.

#### Forecast Risks

- Short term**
  - Any substantial decrease in oil production will have a negative impact on the province's bottom line.
- Medium term**
  - An increase in the number of dry wells being drilled on the east coast may dampen the province's mining sector.

Source: The Conference Board of Canada.

Industry Outlook  
(1997 \$, percentage change)



Sources: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: Newfoundland (Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	15,327 11.3	15,643 2.1	15,800 1.0	16,125 2.1	16,425 1.9	16,510 0.5	16,699 1.1	16,853 0.9	16,915 0.4	17,170 1.5	17,315 0.8	17,490 1.0	15,724 11.9	16,622 5.7	17,222 3.6
<b>GDP at basic prices</b> (current \$)	13,896 11.9	14,180 2.0	14,288 0.8	14,599 2.2	14,883 1.9	14,954 0.5	15,128 1.2	15,268 0.9	15,313 0.3	15,552 1.6	15,679 0.8	15,836 1.0	14,241 11.9	15,058 5.7	15,595 3.6
<b>GDP at basic prices</b> (constant \$ 1997)	12,241 4.5	12,676 3.6	12,709 0.3	12,862 1.2	12,934 0.6	12,902 -0.2	13,092 1.5	13,169 0.6	13,134 -0.3	13,186 0.4	13,243 0.4	13,316 0.6	12,622 9.7	13,024 3.2	13,220 1.5
<b>Consumer price index</b> (1992=1.0)	1.143 0.4	1.175 2.8	1.179 0.3	1.184 0.4	1.187 0.2	1.191 0.4	1.196 0.4	1.201 0.4	1.207 0.5	1.213 0.5	1.217 0.4	1.222 0.4	1.170 2.2	1.194 2.0	1.215 1.8
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.135 7.0	1.119 -1.5	1.124 0.5	1.135 1.0	1.151 1.4	1.159 0.7	1.156 -0.3	1.159 0.3	1.166 0.6	1.179 1.2	1.184 0.4	1.189 0.4	1.128 1.9	1.156 2.5	1.180 2.0
<b>Average weekly wages</b> (level)	593 1.1	591 -0.4	594 0.5	598 0.6	602 0.7	607 0.7	610 0.5	614 0.6	617 0.6	621 0.7	626 0.7	630 0.7	594 2.2	608 2.4	624 2.5
<b>Personal income</b> (current \$)	12,180 1.2	12,255 0.6	12,311 0.5	12,542 1.9	12,610 0.5	12,714 0.8	12,814 0.8	12,907 0.7	12,993 0.7	13,135 1.1	13,283 1.1	13,415 1.0	12,322 4.5	12,761 3.6	13,206 3.5
<b>Personal disposable income</b> (current \$)	9,755 0.8	9,863 1.1	9,903 0.4	10,079 1.8	10,118 0.4	10,193 0.7	10,269 0.8	10,340 0.7	10,438 0.9	10,558 1.1	10,672 1.1	10,773 0.9	9,900 5.4	10,230 3.3	10,610 3.7
<b>Personal savings rate</b>	6.8	7.3	7.4	7.0	6.8	6.5	6.4	6.4	6.6	6.5	6.4	6.1	7.1	6.5	6.4
<b>Population of labour force age</b> (000s)	439 0.1	439 -0.1	439 -0.1	439 0.1	439 0	439 0	439 0	439 0	439 0	439 0	439 0	439 0	439 -0.1	439 0	439 0
<b>Labour force</b> (000s)	257 1.2	258 0.3	257 -0.6	258 0.4	257 -0.3	256 -0.4	256 0.1	256 -0.1	256 0	256 0	256 0.1	256 0	257 2.0	256 -0.5	256 -0.1
<b>Employment</b> (000s)	213 0.2	217 1.9	216 -0.6	219 1.7	220 0.2	220 0.1	220 0.1	220 0	221 0.3	222 0.7	224 0.7	225 0.5	216 2.3	220 1.7	223 1.3
<b>Unemployment rate</b>	17.3	15.9	15.9	14.8	14.4	14.0	14.0	13.9	13.7	13.1	12.6	12.1	16.0	14.1	12.9
<b>Retail sales</b> (current \$)	5,074 0.6	5,054 -0.4	5,061 0.1	5,174 2.2	5,194 0.4	5,246 1.0	5,281 0.7	5,313 0.6	5,339 0.5	5,405 1.2	5,471 1.2	5,533 1.1	5,091 3.0	5,259 3.3	5,437 3.4
<b>Housing starts</b> (units)	1,700 -26.0	2,600 52.9	2,230 -14.2	1,868 -16.3	1,785 -4.4	1,723 -3.5	1,664 -3.4	1,610 -3.3	1,559 -3.1	1,512 -3.0	1,470 -2.8	1,431 -2.6	2,099 17.4	1,695 -19.2	1,493 -11.9

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.



## Prince Edward Island

- Recovery in the agriculture sector will boost real GDP growth by 4 per cent in 2002.
- A good influx of Canadian visitors to the Island will bring a good tourism season in 2003.

### Real GDP

Year	Growth	Ranking
2002	4.0	#3

Year	Growth	Ranking
2003	2.7	#10

### Credit Quality

**A**

Canadian Bond Rating Service

### Retail Sales

Year	Growth	Ranking
2002	3.3	#9

Year	Growth	Ranking
2003	3.0	#10

### Government & Background Information

Premier Pat Binns

Next election 2005

Population (2001) 138,478

Government balance (fiscal 2002-03) -\$28.8 million

Source: The Conference Board of Canada.

## THE END OF THE POTATO NIGHTMARE

Mathieu Lalonde

Potato growers in Prince Edward Island will be enjoying their first good income for potato sales in three years. This is good news for the potato farmers who survived the 2000 potato wart outbreak and the 2001 drought. Last summer's drought was so bad that the current harvest will generate real agriculture output growth of 32 per cent this year. A localized outbreak of potato disease caused by the mop-top virus caused some worries again this summer. However, U.S. authorities cooperated with the provincial government to check the outbreak and no restrictions will be applied to spuds on their way from the province to U.S. markets. The recovery in the agriculture sector will boost Prince Edward Island's real gross domestic product (GDP) growth to a strong 4 per cent this year.

On the manufacturing side, the paltry potato crop adversely affected the food-processing industry in 2002. However, this summer's crop was substantial enough to feed the industry. As a result, manufacturing will rebound in the last quarter of 2002 and into 2003.

The 2002 tourism season is going better than expected. Last fall, the industry was fearful of the consequences of the September terrorist attacks. However, to

the relief of many Islanders, tourists showed up this summer. The provincial tourism industry should have an even better year in 2003. First, with the U.S. and Canadian economies expected to recover, tourists are more likely to travel. In addition, a still weak Canadian currency will discourage many Canadians from traveling abroad. On the other hand, because of tense international conditions, notably economic difficulties in Japan, tourists from overseas are not expected to travel to the Island en masse. A better tourism

season should help boost provincial retail sales by 3 per cent in 2003.

### Cooperation from U.S. authorities forestalled restrictions on potato exports from the Island.

Lobster prices were relatively low last fall, dropping sharply at the end of 2001, but this spring's landings were good and lobster prices were rising again this summer. This is one of the factors that will boost fishing by 9 per cent this year.

### AGRICULTURE REBOUNDS

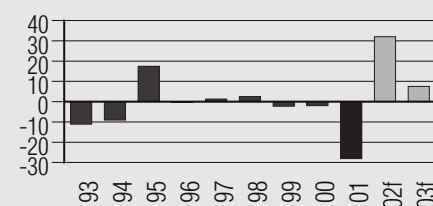
With excellent climatic conditions, the province's agriculture industry finally had a normal season this summer. There was a small outbreak of mop-top virus in a potato field on the island, but the provincial authorities treated the outbreak. U.S. authorities also sent a representative to the outbreak site, and no ban will be imposed on spuds heading south of the border from the Island. Overall, agriculture should rebound by a strong 32 per cent in 2002.

### Economic Indicators (percentage change)

	2001	2002	2003
Real GDP (basic prices)	0.1	4.0	2.7
Consumer price index	2.6	2.4	2.4
Personal disposable income	3.8	6.5	3.2
Employment	2.0	1.6	1.1
Unemployment rate	11.9	12.4	12.2
Retail sales	4.2	3.3	3.0
Average weekly wages	0.5	2.4	2.3
Population	0.4	0.7	0.4

Source: The Conference Board of Canada.

### Agriculture Rebounds (percentage change)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.



While P.E.I. potato producers are relieved, beef producers are just delighted. The outbreak of mad cow disease in many regions of the world gave a big boost to demand for North American beef during the last few years, and the provincial beef industry has experienced impressive growth as a result. However, with the closure in August of the Hub Meat Packers beef processing plant in Moncton, Atlantic beef producers have had to send their cattle to Ontario, significantly raising transportation costs. However, the Atlantic beef co-operatives have recently decided to build their own processing plant. Even better, the \$15-million plant will be located on Prince Edward Island.

Lobster fishing did very well during the last spring season. While this fall doesn't look as promising, 2002 should be a very good year overall for the fishing industry. Increasing U.S. and domestic demand will keep prices up, while a good natural biomass in the Gulf region should ensure a strong supply of red shellfish. All in all, P.E.I. fisheries should do well this year, with a growth rate of about 9 per cent. But there is no way for the industry to sustain such a high growth rate, so we expect lower growth of only 1 per cent in 2003.

## TOURISM

Despite a spate of cancellations last fall, Prince Edward Island had a good tourism season this summer. Even so, prospects remain gloomy for 2003. A tense international situation will probably keep many foreign tourists from travelling abroad. A delayed recovery in the United States could also discourage potential travelers. To compensate somewhat, the vigorous Canadian economy and the low Canadian dollar should result in enough domestic tourists for a decent season.

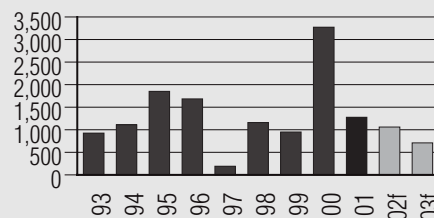
## MANUFACTURING

As a result of the drought last year, the province's agro-food industry suffered from a lack of potatoes.

**Despite a better-than-expected tourism season, prospects remain gloomy for 2003.**

This year, however, the potato crop will produce a good supply for the Island's French fries factories. The food-processing industry will also benefit in the near future from the recent decision by the Atlantic beef producers co-op to build its new \$15 million beef-processing plant on the Island. Agro-food still heavily dominates the province's manufacturing industry, but this sector has undergone some diversification during the last few years. Unfortunately, most of the province's non-food manufacturing is concentrated in the aerospace sector,

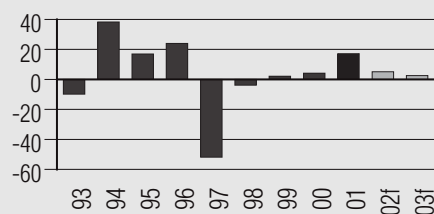
**Job Creation Slows**  
(net number of new jobs created during the year)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

**Important Projects Boost Non-Residential Investment**  
(percentage change)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

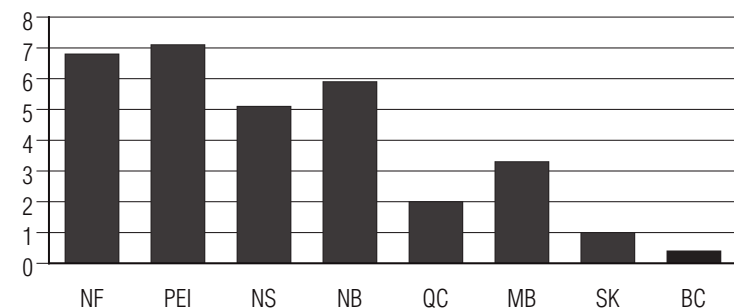
which is currently facing significant difficulties all around the globe. But thanks to a healthy agro-food sector, real manufacturing output in the province will grow by 3.4 per cent this year and by 3.2 per cent in 2003.

## Federal Money

No other province receives more per capita spending from the federal government than Prince Edward Island. In fact, during the 2002–2003 financial exercise, federal transfers to the provincial government will account for more than 7 per cent of the province's GDP. Budget after budget, around 36 per cent of the provincial government's revenues come from federal transfers. In the last provincial budget, for example, \$366.1 million of the \$968.4 million expected in total revenues will come from transfer payments. Further, the biggest employer on the Island is the federal government, notably the Veterans Affairs Department, whose main offices are in Charlottetown. There were 3,644 federal government employees in the province in 2001. At 2.6 per cent of the provincial workforce, this was the highest ratio in Canada.

However, with its small population, Prince Edward Island accounts for just a drop in the sea of federal government spending. The sum of federal transfers and federal government wages and salaries paid to Islanders in 2001 came to \$530.7 million. During the same year, by contrast, federal government revenues were about \$184.7 billion. Even allowing for other expenses not mentioned here, the province would account for a good deal less than 0.5 per cent of the federal budget.

**Equalization as a percentage of GDP**  
(per cent)



Sources: Department of Finances Canada; The Conference Board of Canada.

## CONSTRUCTION

After a solid performance this summer, the province's housing industry slowed a bit in September. Approximately 675 new houses will be started in 2002, pretty much the same number as last year. There will be a 3.1 per cent decrease in the housing sector in 2003, with about 650 starts. As a result, residential construction will experience a 0.6 per cent decrease next year.

A number of important projects are keeping the non-residential sector busy this year. For example, The Confederation Center of the Arts and Holland College, both in Charlottetown, will together spend more than \$15 million renovating their facilities. As a result, non-residential construction will grow by 5.1 per cent in 2002. There will not be as many large projects in 2003, so non-residential construction will rise by a slower 2.5 per cent.

## EMPLOYMENT &amp; CONSUMER OUTLOOK

About 700 new jobs will be added to payrolls in the province next year, a 1.1 per cent increase. As a result of the sluggish labour market, unemployment will stay at an elevated 12.2 per cent. However, this relatively high rate is not only the result of low job creation. It also reflects a relatively high participation rate. Only

Manitoba and booming Alberta will have a higher proportion of their population active in the labour market in 2002 and 2003 than the 68.3 per cent in Prince Edward Island.

Moderate employment growth will push personal disposable income by 3.2 per cent in 2003. As a result, consumer spending will grow by 3.9 per cent, mainly in the services sector. Consumer spending and a good tourism season will boost retail sales by 3 per cent in 2003.

**The food-processing industry will benefit from the decision by the Atlantic beef producers co-op to build a new beef-processing plant on the Island.**

*Forecast Risks***Short term**

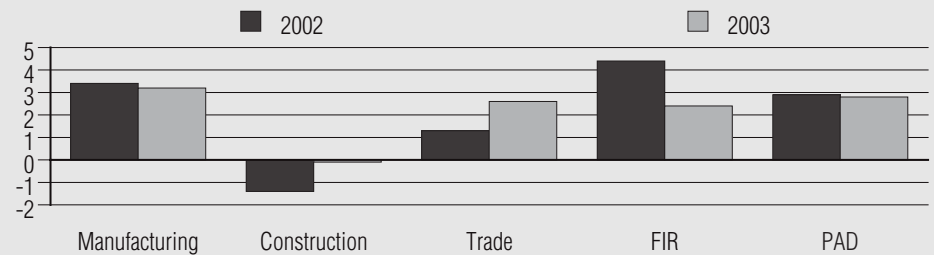
- A delayed U.S. recovery could affect the number of visiting tourists next summer.

**Medium term**

- Allegations of federal funds mismanagement could result in smaller federal subsidies.

Source: The Conference Board of Canada.

Industry Outlook  
(1997 \$, percentage change)



Sources: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: Prince Edward Island

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	3,595 3.0	3,678 2.3	3,718 1.1	3,760 1.1	3,780 0.5	3,815 0.9	3,851 0.9	3,889 1.0	3,919 0.8	3,972 1.3	4,011 1.0	4,054 1.1	3,688 6.3	3,834 4.0	3,989 4.0
<b>GDP at basic prices</b> (current \$)	3,294 2.8	3,370 2.3	3,399 0.9	3,439 1.2	3,455 0.5	3,488 0.9	3,520 0.9	3,555 1.0	3,582 0.7	3,631 1.4	3,666 1.0	3,705 1.1	3,375 5.9	3,504 3.8	3,646 4.0
<b>GDP at basic prices</b> (constant \$ 1997)	2,896 1.0	2,921 0.9	2,961 1.4	2,982 0.7	2,988 0.2	3,006 0.6	3,030 0.8	3,056 0.8	3,079 0.8	3,098 0.6	3,117 0.6	3,135 0.6	2,940 4.0	3,020 2.7	3,107 2.9
<b>Consumer price index</b> (1992=1.0)	1.139 -0.8	1.175 3.2	1.188 1.1	1.193 0.4	1.194 0.1	1.199 0.4	1.204 0.4	1.210 0.4	1.217 0.6	1.224 0.6	1.229 0.4	1.234 0.4	1.173 2.4	1.202 2.4	1.226 2.0
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.138 1.8	1.154 1.4	1.148 -0.5	1.153 0.5	1.156 0.3	1.160 0.4	1.162 0.1	1.163 0.2	1.163 0	1.172 0.7	1.176 0.4	1.182 0.5	1.148 1.8	1.160 1.1	1.173 1.1
<b>Average weekly wages</b> (level)	477 1.2	480 0.6	480 0.1	483 0.5	486 0.7	490 0.7	493 0.6	496 0.7	499 0.7	503 0.7	506 0.7	510 0.7	480 2.4	491 2.3	505 2.7
<b>Personal income</b> (current \$)	3,281 1.1	3,280 0	3,319 1.2	3,343 0.7	3,369 0.8	3,399 0.9	3,429 0.9	3,465 1.0	3,495 0.9	3,525 0.9	3,564 1.1	3,597 0.9	3,306 5.2	3,416 3.3	3,546 3.8
<b>Personal disposable income</b> (current \$)	2,634 1.0	2,645 0.4	2,674 1.1	2,690 0.6	2,710 0.7	2,731 0.8	2,755 0.9	2,783 1.0	2,816 1.2	2,842 0.9	2,872 1.1	2,898 0.9	2,661 6.5	2,745 3.2	2,857 4.1
<b>Personal savings rate</b>	5.9	6.2	6.2	5.8	5.6	5.3	5.2	5.2	5.5	5.4	5.2	4.9	6.0	5.3	5.2
<b>Population of labour force age</b> (000s)	111.3 0.2	111.6 0.2	112.0 0.4	112.4 0.4	112.6 0.2	112.9 0.2	113.0 0.1	113.1 0.1	113.4 0.3	113.7 0.3	113.9 0.2	114.3 0.4	111.8 1.2	112.9 0.9	113.9 0.9
<b>Labour force</b> (000s)	76 0.5	76 -0.2	77 1.1	77 0.2	77 0.1	77 0	77 0.2	77 0.1	77 0.2	77 0.2	78 0.2	78 0.1	76 2.1	77 0.9	78 0.7
<b>Employment</b> (000s)	66 -0.5	67 1.6	67 0.4	67 -0.2	67 0.2	67 0.2	68 0.3	68 0.5	68 0.2	68 0.1	69 0.6	69 0.2	67 1.6	68 1.1	68 1.2
<b>Unemployment rate</b>	13.2	11.6	12.2	12.6	12.5	12.3	12.2	11.9	11.9	11.9	11.6	11.5	12.4	12.2	11.7
<b>Retail sales</b> (current \$)	1,329 2.1	1,310 -1.4	1,322 0.9	1,333 0.8	1,344 0.8	1,359 1.1	1,370 0.8	1,383 1.0	1,394 0.8	1,407 1.0	1,424 1.2	1,439 1.1	1,324 3.3	1,364 3.0	1,416 3.8
<b>Housing starts</b> (units)	500 -52.9	800 60.0	700 -12.5	700 0	660 -5.7	656 -0.7	651 -0.6	648 -0.5	645 -0.5	643 -0.4	641 -0.3	640 -0.2	675 0	654 -3.1	642 -1.8

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.

## Nova Scotia

- Construction boom enters high gear.
- Manufacturing riding on hot tire sales.

### Real GDP

2002	Growth	Ranking
	3.4	#5

2003	Growth	Ranking
	3.4	#4

### Credit Quality

**A-**  
Standard & Poor's

### Retail Sales

2002	Growth	Ranking
	5.4	#6

2003	Growth	Ranking
	4.1	#6

### Government & Background Information

Premier John F. Hamm

Next election 2004

Population (July 1, 2002) 943,833

Government balance  
(2002-03) \$2.3 million

Source: The Conference Board of Canada.

## GAINS ON ALL FRONTS

Prince Owusu

The Nova Scotia economy is in good shape. Strong retail and wholesale sales, a booming housing market, and 4,000 additional jobs will push real gross domestic product (GDP) growth to 3.4 per cent this year, with all sectors of the economy expected to advance. In 2003, growth of 11.9 per cent in construction output will help real GDP grow by 3.4 per cent.

The construction industry is expected to post its strongest growth since the first phase of the Sable Island gas project was completed in 1999. Construction output will double the national average in 2002 as work on the second phase of the project forges ahead. With full-scale construction beginning on the \$1 billion Deep Panuke gas project in 2003, construction activity will not let up.

After two years of sharply increasing gas production at Sable Island, mineral fuels output is expected to level off. However, offshore exploration for mineral fuels will sustain growth in mining services for the next two years.

Steady growth in the United States and the rest of Canada is expected to yield better results for the province's manufacturing industry. Output in this industry in 2002 should double last year's lacklustre growth as the Michelin tire plants crank up production in response to stronger North

American car production. In addition, mega-construction projects and new orders for rail cars are expected to support the fabricated metal industry throughout 2003.

The transportation industry will benefit from a pick-up in manufacturing activities as more goods are hauled south of the border. Tourism will continue to improve into next year, with more cruise ships calling at the Port of Halifax. This will also improve retail sales. Wholesale and retail trade is projected to advance by 4.1 per cent in 2003.

### CONSTRUCTION BOOM TO LAST INTO 2003

The construction industry has been busy since the beginning of the year. A good pace of job creation and low interest rates have left households in a good position to make major purchases, such as new homes.

**Shopping by tourists accounted for 16 per cent of the \$1.22 billion tourism receipts in 2001.**

During the first nine months of the year, 4,589 new homes were built, about 500 more than for all of last year. This is expected to encourage residential construction investment in 2002. However, 2003 will not be promising for investment in new homes, as growth in housing starts will be limited by rising interest rates and declining household formation.

Most of the activity in the construction industry will be generated by non-residential construction investment this year and next. Sable Offshore Energy Incorporated has begun work on the second phase of its \$2 billion offshore gas project. The Tier 2

### Economic Indicators (percentage change)

	2001	2002	2003
Real GDP (basic prices)	2.4	3.4	3.4
Consumer price index	1.9	2.8	2.1
Personal disposable income	3.4	4.4	4.0
Employment	0.9	1.2	1.5
Unemployment rate	9.8	9.8	9.2
Retail sales	2.6	5.4	4.1
Average weekly wages	0.8	1.9	2.2
Population	0	0.2	0.3

Source: The Conference Board of Canada.

### Gains on All Fronts (percentage change, 1997 \$)



f = forecast

Source: Statistics Canada; The Conference Board of Canada.

project involves the development of three gas fields, which will lift growth in non-residential construction investment by 27.4 per cent in 2002.

There is more good news for the industry in 2003: offshore installation and pipe-laying activities will continue on Sabre Island Tier 2; construction will begin on the \$1 billion Deep Panuke gas project; and work will start on three sewage plants in Halifax harbour at a cost of \$300 million. Growth in non-residential construction investment will thus reach 29 per cent next year, and real construction output will match this year's 11.8 per cent growth.

### MINERAL FUELS OUTPUT TAPERS OFF

Gas production is levelling off after intense mining at Sable Island during the past two years. Drilling and production data from Sable Island suggest that reserves could run down sooner than originally anticipated. In fact, monthly production has fallen below the projected average of 550 cubic metres for this year. Mineral fuel output growth will therefore slow this year to only 1.2 per cent. This low pace of growth will continue throughout next year.

Notwithstanding the weakness in gas production, mining services are expected to grow at a stronger pace through this year and next. Several mining companies

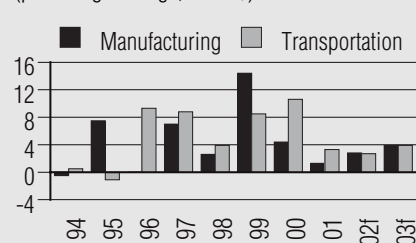
have declared their intention to continue exploration both offshore and onshore. Currently, there are 56 exploratory licenses with over \$1.4 billion dollars in work committed to explore the Nova Scotia offshore between now and 2007. Growth in the output of mining services is projected to hit a record high of 40.1 per cent in 2003, shoring up growth in overall mining to 5.7 per cent.

### TIRES PROVIDE WHEELS FOR MANUFACTURING

The manufacturing industry is expected to do well this year and next. Real output in 2002 is projected to more than double last year's lacklustre growth of 1.3 per cent. The United States economy is on the road to full recovery next year. On top of that, the spectacular performance of the Canadian economy is stimulating manufacturing in the province. North American car production has been on the increase since the beginning of this year and is projected to rise throughout next year. This will give a boost to the production of tires.

The fabricated metal industry has also been kept busy with mega-construction projects in the province. These will last well into next year. In addition, Trentonworks has signed a contract to supply 850 rail cars. This comes on top of the order for 750 rail cars it is currently working on. The plant may have to add work-shifts to

Transportation Riding on Manufacturing Wheel  
(percentage change, 1997 \$)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

Retail Sales Trailing Income  
(percentage change, current \$)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

meet delivery deadlines in 2003. The electronics sector will continue to benefit from the ongoing war on terrorism, as Pivotal Power Inc. continues to work on a contract for \$45 million in military hardware for the U.S. Marines and the British army.

## SPECIAL ISSUE

### *Kyoto—A New Threat to the Economy*

The government of Canada has declared its intention to ratify the Kyoto Protocol and to cut greenhouse gas emissions by 6 per cent from 1990 levels by 2012. This decision has politicians and business leaders worrying about the impact of the agreement on the provincial economy.

Nova Scotia Power (NSP), the province's main energy supplier, uses coal to produce 80 per cent of its electricity. Coal produces higher harmful emissions than the rest of NSP's fuel mix. The Kyoto Protocol could mean higher electricity tariffs as NSP passes on the cost of emission control to consumers. This is likely to raise the price of goods produced in Nova Scotia and to make them less competitive on the market. The United States, the province's major trading partner, has indicated that it will not ratify the protocol, and Nova Scotia exports will suffer.

The impact of Kyoto will be felt far beyond the manufacturing sector. In fact, the greatest threat will be felt by the oil and gas companies in the province. Additional costs to the oil and gas sector from the implementation of the Kyoto Protocol could significantly reduce exploration commitments.

Growth in the manufacturing sector is thus anticipated to be stronger than the national average, coming in at 3.9 per cent in 2003.

## TRANSPORTATION ENJOYING THE LONG HAUL

The transportation, communication and storage industry is expected to maintain momentum through this year and next, gaining strength from increased manufacturing activities in the province. As about 80 per cent of the province's manufactured goods are hauled south the border, the transportation sector should improve in 2003, as the U.S. economy picks up steam.

The good news is not limited to south of the border alone. After a slow start this year, the movement of container cargo through the Port of Halifax has started picking up and there is more optimism going into next year. A new \$15 million crane, with a longer reach and a larger lifting capacity, went into operation in August, so that the port is now equipped to handle the new generation of Post-Panamax vessels.

Air traffic is also adding its weight to growth in the transportation sector. The flow of air traffic to the province rose 7 per cent during the first seven months of this year. As travellers begin to feel more confident about airline security, more routes and more frequent flights can be expected throughout next year.

In all, the transportation industry is projected to advance by 3.9 per cent in 2003, surpassing the national average.

## SCHOOLS AND HOSPITALS GAIN TOO

The gains in the economy are not limited to the corporate sector. Schools and hospitals are getting their fair share of the pie. The government has announced plans to cap class size at 25 students, affecting 400 classrooms across the province. This

will result in the hiring of 305 new professional and resource

teachers. In addition, the government is providing \$63.5 million in new funding for health care over the next three years.

The new funding will allow health care providers to hire more doctors and

nurses and to reduce waiting

times for patients. Non-commercial services, which have endured years of languid growth, will take a big leap next year. Growth in the sector is expected to advance by 3.3 per cent in 2003, the highest increase in more than ten years.

## Gas production is levelling off after intense mining at Sable Island during the past two years.

## CONSUMER OUTLOOK

The growth in the economy is reflected in the job market. The first nine months of the year saw 4,000 new jobs created. In all, we expect employment to advance by 1.2 per cent in 2002 and by an additional 1.5 per cent in 2003. As a result, personal disposable income is expected to grow by 4.4 per cent this year and by a further 4 per cent in 2003.

The improvement in personal disposable income should yield better results for retail sales. We expect retail sales to finish the year on a good note, at 5.4 per cent growth, more than double last year's performance and the strongest showing among the Atlantic provinces. Retail sales will also benefit from 165,000 cruise passengers. Last year, shopping by tourists accounted for 16 per cent of the \$1.22 billion in tourism receipts. With tourism figures for 2002 and 2003 projected to exceed last year's, we expect retail sales to be rosy for the province.

### Forecast Risks

#### Short term

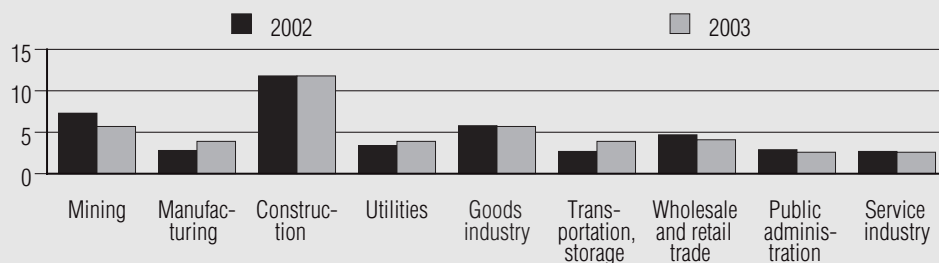
- A slowdown in the U.S. recovery could endanger the provincial economy.

#### Medium term

- Ratification of the Kyoto Protocol could put provincial mining operations at risk.

Source: The Conference Board of Canada.

Industry Outlook  
(percentage change)



Sources: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: Nova Scotia

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	25,653 2.2	26,478 3.2	26,635 0.6	26,989 1.3	27,202 0.8	27,416 0.8	27,661 0.9	27,905 0.9	28,131 0.8	28,501 1.3	28,768 0.9	29,058 1.0	26,439 4.9	27,546 4.2	28,614 3.9
<b>GDP at basic prices</b> (current \$)	23,142 1.9	23,910 3.3	23,982 0.3	24,312 1.4	24,496 0.8	24,685 0.8	24,904 0.9	25,123 0.9	25,321 0.8	25,660 1.3	25,898 0.9	26,155 1.0	23,837 4.2	24,802 4.1	25,758 3.9
<b>GDP at basic prices</b> (constant \$ 1997)	21,237 1.2	21,458 1.0	21,659 0.9	21,832 0.8	22,060 1.0	22,180 0.5	22,348 0.8	22,501 0.7	22,608 0.5	22,709 0.4	22,810 0.4	22,906 0.4	21,547 3.4	22,272 3.4	22,758 2.2
<b>Consumer price index</b> (1992=1.0)	1.164 0.3	1.197 2.8	1.209 1.0	1.214 0.4	1.214 0	1.218 0.4	1.223 0.4	1.228 0.4	1.235 0.6	1.241 0.5	1.246 0.4	1.251 0.4	1.196 2.8	1.221 2.1	1.243 1.9
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.090 0.7	1.114 2.3	1.107 -0.6	1.114 0.6	1.110 -0.3	1.113 0.2	1.114 0.1	1.117 0.2	1.120 0.3	1.130 0.9	1.135 0.5	1.142 0.6	1.106 0.7	1.114 0.7	1.132 1.6
<b>Average weekly wages</b> (level)	558 0.9	555 -0.6	563 1.4	565 0.3	568 0.6	571 0.6	574 0.6	578 0.6	581 0.6	585 0.7	589 0.7	593 0.7	560 1.9	573 2.2	587 2.5
<b>Personal income</b> (current \$)	23,977 0.7	24,047 0.3	24,112 0.3	24,434 1.3	24,695 1.1	24,893 0.8	25,142 1.0	25,349 0.8	25,550 0.8	25,765 0.8	26,001 0.9	26,235 0.9	24,143 3.4	25,020 3.6	25,888 3.5
<b>Personal disposable income</b> (current \$)	18,968 0.7	19,128 0.8	19,169 0.2	19,408 1.2	19,690 1.5	19,830 0.7	20,021 1.0	20,177 0.8	20,437 1.3	20,623 0.9	20,800 0.9	20,976 0.8	19,168 4.4	19,929 4.0	20,709 3.9
<b>Personal savings rate</b>	4.5	4.3	4.3	3.9	3.7	3.4	3.3	3.2	3.5	3.4	3.2	3.0	4.2	3.4	3.3
<b>Population of labour force age</b> (000s)	754 0.1	755 0.1	756 0.2	759 0.4	761 0.2	761 0	762 0.1	762 0.1	764 0.2	766 0.3	768 0.2	769 0.2	756 0.6	762 0.7	767 0.7
<b>Labour force</b> (000s)	471 -0.8	475 0.7	474 -0.1	478 0.8	479 0.1	478 -0.2	479 0.2	480 0.3	480 0.1	481 0.2	482 0.2	483 0.2	475 1.2	479 0.9	482 0.6
<b>Employment</b> (000s)	425 -1.0	429 1.1	428 -0.3	432 0.9	433 0.3	434 0.1	436 0.5	437 0.2	437 0.1	438 0.2	439 0.3	441 0.3	428 1.2	435 1.5	439 0.9
<b>Unemployment rate</b>	9.9	9.6	9.8	9.7	9.5	9.3	8.9	9.0	9.0	9.0	8.9	8.8	9.8	9.2	8.9
<b>Retail sales</b> (current \$)	9,181 3.0	9,135 -0.5	9,122 -0.1	9,270 1.6	9,424 1.7	9,514 1.0	9,599 0.9	9,666 0.7	9,751 0.9	9,843 0.9	9,938 1.0	10,038 1.0	9,177 5.4	9,551 4.1	9,893 3.6
<b>Housing starts</b> (units)	4,300 -4.0	4,600 7.0	4,867 5.8	4,300 -11.6	3,963 -7.8	3,904 -1.5	3,851 -1.4	3,805 -1.2	3,765 -1.1	3,731 -0.9	3,703 -0.7	3,682 -0.6	4,517 10.4	3,881 -14.1	3,720 -4.1

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.



## New Brunswick

- Construction boom is here for at least two years.
- Manufacturing sector is in high gear.

### Real GDP

<b>2002</b>	Growth 3.0	Ranking #7
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<b>2003</b>	Growth 3.3	Ranking #5
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### Credit Quality

**AA-**  
Standard & Poor's

### Retail Sales

<b>2002</b>	Growth 3.8	Ranking #8
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<b>2003</b>	Growth 3.6	Ranking #8
-------------	---------------	---------------

### Government & Background Information

Premier	Bernard Lord
Next election	2004
Population (July, 2002)	755,590
Government balance (2002-03)	\$21.3 million
Source: The Conference Board of Canada.	

## CONSTRUCTION BRIGHTENS OUTLOOK

Prince Owusu

With a growth rate of 3 per cent forecast for real gross domestic product (GDP) this year and 3.3 per cent in 2003, the overall outlook for New Brunswick remains rosy. A major factor behind this good outlook is a line-up of medium to mega-size non-residential construction projects for this year and next that will lift construction output from its lull in 2001.

Prospects for the province's manufacturing sector also look promising. The economy of the United States, the province's largest trading partner, is expected to do better in 2003. Manufacturing shipments have remained sturdy since the beginning of the year, and we expect more shipments throughout next year. Shipments of additional crude oil received by Irving Oil from Terra Nova are expected to lead to better results for the manufacturing industry. Growth in this industry is expected to reach 4 per cent next year, exceeding the national average.

The promising manufacturing outlook will provide sturdy wheels for the province's transportation industry. The industry will also benefit from the newly completed Moncton International Airport when more international flights begin arriving there next year.

### The construction sector will drive growth this year and in 2003.

New Brunswick will continue to lead the way in attracting call centres into the Atlantic region, helping to expand commercial services in the province. Commercial services will also benefit from the 2003 Canada Games, to be hosted in Bathurst and Campbellton. Hotels and restaurants will be kept busy during the \$21 million event early next year.

The consumer spending outlook continues to improve for the province. Confidence has remained strong since January of this year. As many as 10,000 jobs have been created so far this year—80 per cent of them full-time—and more are expected in 2003, so more New Brunswickers can look forward to stable incomes. Retail sales are therefore expected to remain strong throughout next year.

### CONSTRUCTION ACTIVITY THROUGH THE ROOF

The past two years have been difficult for the province's construction industry. Growth nose-dived after the completion of the Fredericton-Moncton highway and the Irving Oil Refinery upgrade in Saint John. Non-residential construction investment dropped 43.5 per cent in 2001, dragging down overall construction output by 13.1 per cent and limiting growth in real GDP to a paltry 0.6 per cent. However, construction activity will turn around nicely over the next two years.

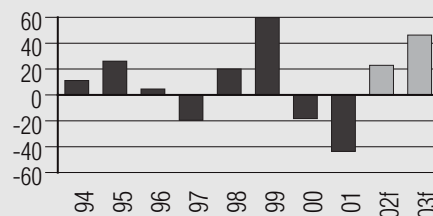
For starters, work has just finished on the upgrade of the Moncton International Airport. Wal-Mart is also working on two new stores costing about \$35 million.

### Economic Indicators (percentage change)

	2001	2002	2003
<b>Real GDP (basic prices)</b>	0.6	3.0	3.3
<b>Consumer price index</b>	1.7	3.2	2.4
<b>Personal disposable income</b>	4.5	4.5	3.6
<b>Employment</b>	0	3.0	1.3
<b>Unemployment rate</b>	11.2	10.5	9.9
<b>Retail sales</b>	2.4	3.8	3.6
<b>Average weekly wages</b>	1.0	1.9	2.5
<b>Population</b>	0	0.1	0.1

Source: The Conference Board of Canada.

### Non-Residential Construction Rebounds (percentage change, \$ millions)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.



Completion of these projects is expected by the end of the year. The government's infrastructure program announced in the spring 2002 budget is also on course. Finally, work will also begin this November on the \$750 million Coleson Cove thermal generation plant. All these projects have helped non-residential construction investment recover the ground lost in 2001.

The stage is thus set for the industry to take off in 2003. In addition to work continuing in earnest on the Coleson Cove thermal generation plant, Irving Oil is planning to undertake two major projects. The company will spend \$500 million to upgrade its Canaport terminal near Saint John, and it plans to build an \$80 million, 90 megawatt co-generation plant to produce electricity using natural gas from Sable Island. The proposed facility will provide power for the Saint John oil refinery, and surplus power will be sold to New Brunswick Power.

Work will also begin in 2003 on the \$400 million Trans-Canada Highway upgrade between Fredericton and St. Leonard, on the Quebec border. As a result of all this activity, growth in non-residential construction investment is expected to reach an impressive 46.3 per cent in 2003. This will allow growth in real construction output to advance by 16.6 per cent, a four-year high.

The only weakness in the sector will come from residential construction investment. Projected increases in interest rates and a weakening migration profile will be a drag on housing starts next year.

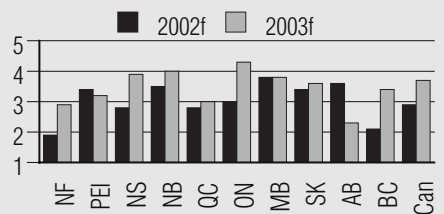
### BUSINESS CONDITIONS REMAIN POSITIVE

The manufacturing sector is now in better shape than it was a year ago, when it suffered its worst decline in seven years. Better growth in the United States and the rest of Canada has brightened the outlook for the sector. A recovery of prices of pulp and paper has led to a surge in shipments.

Petroleum products, the province's leading export commodity, are expected to help boost manufacturing output this year. Irving Oil recently completed maintenance to enhance the reliability and efficiency of its fluid catalytic cracking unit. In addition, the company has started receiving crude oil from Terra Nova. This is in addition to the feedstocks it purchases from the Hibernia and Sable Island gas fields. We expect this to push growth in manufacturing output to 3.5 per cent in 2002, the highest provincial performance east of Manitoba.

Prospects are also good for 2003, when manufacturing should benefit from a recovery in the U.S. economy. A survey of business conditions in the province in September indicates that about 92 per cent

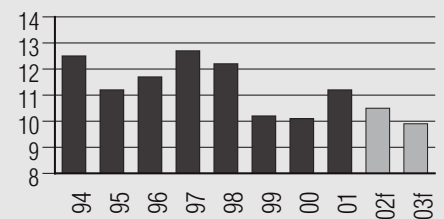
**Manufacturing Showing Strongly**  
(percentage change, 1997 \$)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

**Jobless Rate to Decline**  
(percentage)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

of businesses believe that new order levels are expected to rise or remain the same over the near term. This is about twice as many as this past March. Working on a \$60 million contract expected to last well into 2003, Spielo Gaming International will supply over 6,000 video lottery terminals to

### Orimulsion Gets A Go-ahead

After months of debate over the Coleson Cove thermal generation plant, the provincial government has given the go-ahead to New Brunswick Power (NBP) to use an alternative fuel. This means that NBP will begin to refit the plant with new technology to allow it to burn orimulsion instead of oil. Orimulsion, a Venezuelan fuel source, is a mixture of natural bitumen and water. The name combines the words "Orinoco" (representing the place in Venezuela where the fuel is mined) and "emulsion."

Work will begin this November on the \$750 million, three-year project, with \$185 million going toward the actual conversion from oil to orimulsion. An additional \$436 million will be spent on construction and another \$126 million will extend the life of the plant to 2030. It is estimated that 700 construction jobs will be created during the peak period. When it is completed, the plant will employ roughly 100 workers.

Loto-Québec. Nanoptix Ltd., of Dieppe, has signed a \$50 million contract to provide thermal printers for the gaming and lottery industries. These should help propel growth in the manufacturing industry to 4 per cent in 2003.

### TRANSPORTATION BENEFITS FROM MANUFACTURING

Strong economic activities in the manufacturing sector bode well for transportation next year. Irving Oil is expected to crank up production at its refinery plant in Saint John. More than 50 per cent of these petroleum products are exported to the northeastern United States. This means that delivery tankers will be kept busy shipping oil products to distribution centres south of the border.

Strong communication infrastructure activities in the province are providing additional thrust. About 70 per cent of New Brunswickers currently have access to broadband network services. If the government increases this proportion to 90 per cent, as it intends, the industry should continue to attract client services centres into the province.

The newly completed terminal at the Moncton Airport is up and running, and hopes are high that more international flights will be attracted into the province. This additional traffic should help the transportation industry to advance by 2.9 per cent in 2003, on the heels of an expected solid performance this year.

### SERVICE SECTOR TO REMAIN STRONG

Services, the largest industrial sector in New Brunswick, will remain strong through next year. Attesting to the province's strong communications infrastructure, more than five firms are expected to open call centres by the end of the year. Bilingualism and cost-competitiveness have made New Brunswick the designated choice for call-centre investors. With the creation of at least 1,500 new positions between now and 2003, the province will be the focal point

for call centres in the Atlantic region. This will help the province to sustain the strong employment growth it has enjoyed since the beginning of this year.

The province will also host the Canada Winter Games early next year. The \$21 million event is expected to bring in 3,200 athletes, plus fans and sports officials. Community, business and personal services are expected to benefit from this short-lived event, with output in the industry expected to advance by 2.5 per cent in 2003 following a similar performance this year.

Finance, insurance and real estate will lose a bit of steam in 2003, when borrowing costs are expected to rise as the Bank of Canada tries to keep inflation in check. Some of the lustre will come off interest-sensitive goods, like automobiles and home furnishings. In addition, the housing market is expected to slow down as it lines up more closely with the underlying demographic profile. Growth in finance, insurance and real estate will thus come in weaker in 2003 than in 2002.

**Petroleum products are expected to grease manufacturing wheels throughout next year.**

### CONSUMER OUTLOOK

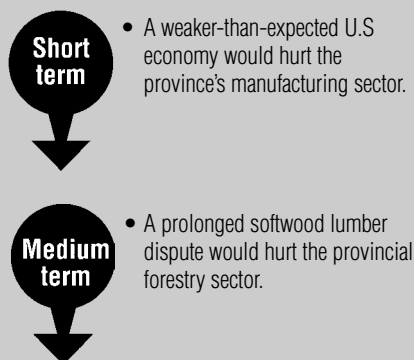
Employment is on the way to making significant gains this year. The first nine months of 2002 saw the creation of 10,000 jobs. This is expected to push the jobless rate down to 10.5 per cent, a decline of 0.7 per cent from last year's level; a further decline of 0.6 per cent is expected in 2003. Most of these jobs are full-time positions, giving stability to disposable

income. The significant wage settlement won by about 1,300 public sector workers in October will also help boost spending power in 2003.

At the beginning of this year, the provincial government gave generous tax relief to households, totalling \$27 million. More is expected in 2003, when 15,000 tax filers will be removed from the provincial tax rolls.

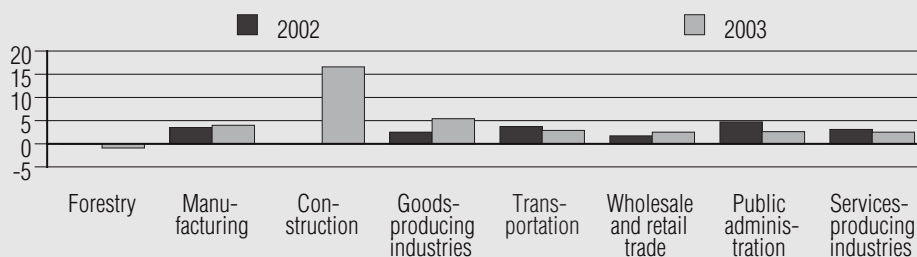
Respectable growth in employment, wage settlement gains and income tax relief will all help stimulate growth in household income. Personal disposable income is expected to advance by 4.5 per cent in 2002 and by a further 3.6 per cent in 2003. We expect New Brunswick to enjoy the second strongest growth in retail sales in Atlantic Canada next year.

#### Forecast Risks



Source: The Conference Board of Canada.

Industry Outlook  
(percentage change)



Sources: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: New Brunswick

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	20,577 2.3	21,099 2.5	21,213 0.5	21,457 1.1	21,638 0.8	21,888 1.2	22,124 1.1	22,370 1.1	22,591 1.0	22,860 1.2	23,056 0.9	23,269 0.9	21,087 3.4	22,005 4.4	22,944 4.3
<b>GDP at basic prices</b> (current \$)	18,604 2.0	19,082 2.6	19,127 0.2	19,352 1.2	19,511 0.8	19,741 1.2	19,958 1.1	20,183 1.1	20,381 1.0	20,628 1.2	20,799 0.8	20,988 0.9	19,041 2.5	19,848 4.2	20,699 4.3
<b>GDP at basic prices</b> (constant \$ 1997)	17,243 1.5	17,514 1.6	17,712 1.1	17,859 0.8	17,972 0.6	18,083 0.6	18,233 0.8	18,373 0.8	18,489 0.6	18,578 0.5	18,658 0.4	18,727 0.4	17,582 3.0	18,165 3.3	18,613 2.5
<b>Consumer Price Index</b> (1992=1.0)	1.152 0.6	1.182 2.6	1.198 1.4	1.204 0.5	1.205 0.1	1.209 0.4	1.215 0.4	1.220 0.5	1.228 0.6	1.236 0.6	1.241 0.4	1.246 0.4	1.184 3.2	1.212 2.4	1.238 2.1
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.079 0.5	1.090 1.0	1.080 -0.9	1.084 0.3	1.086 0.2	1.092 0.6	1.095 0.3	1.099 0.4	1.102 0.3	1.110 0.7	1.115 0.4	1.121 0.5	1.083 -0.4	1.093 0.9	1.112 1.8
<b>Average weekly wages</b> (level)	586 0.9	587 0.1	592 0.8	596 0.8	600 0.6	604 0.6	607 0.6	611 0.6	615 0.6	619 0.7	624 0.7	628 0.7	590 1.9	605 2.5	621 2.6
<b>Personal income</b> (current \$)	18,805 0.2	18,813 0	19,078 1.4	19,208 0.7	19,396 1.0	19,604 1.1	19,803 1.0	20,006 1.0	20,158 0.8	20,323 0.8	20,506 0.9	20,684 0.9	18,976 3.1	19,702 3.8	20,418 3.6
<b>Personal disposable income</b> (current \$)	15,074 0.4	15,159 0.6	15,360 1.3	15,455 0.6	15,585 0.8	15,737 1.0	15,892 1.0	16,048 1.0	16,219 1.1	16,363 0.9	16,503 0.9	16,639 0.8	15,262 4.5	15,816 3.6	16,431 3.9
<b>Personal savings rate</b>	9.5	9.8	9.9	9.5	9.3	9.0	8.9	8.9	9.1	9.0	8.9	8.6	9.7	9.0	8.9
<b>Population of labour force age</b> (000s)	607 0.1	607 0	608 0.2	609 0.2	610 0.1	611 0.1	611 0.1	612 0.1	613 0.1	614 0.2	615 0.2	616 0.1	608 0.4	611 0.5	614 0.5
<b>Labour force</b> (000s)	385 1.7	384 -0.4	385 0.3	386 0.4	387 0.1	386 -0.1	387 0.1	388 0.5	389 0.2	390 0.2	391 0.3	391 0.1	385 2.2	387 0.5	390 0.8
<b>Employment</b> (000s)	343 1.8	346 0.9	345 -0.3	344 -0.2	346 0.5	348 0.5	350 0.5	352 0.5	352 0.2	353 0.2	354 0.3	354 0.2	345 3.0	349 1.3	353 1.2
<b>Unemployment rate</b>	11.0	9.9	10.4	10.9	10.5	9.9	9.5	9.5	9.5	9.5	9.5	9.5	10.5	9.9	9.5
<b>Retail sales</b> (current \$)	7,346 1.9	7,260 -1.2	7,347 1.2	7,412 0.9	7,482 0.9	7,578 1.3	7,650 0.9	7,724 1.0	7,774 0.7	7,848 1.0	7,926 1.0	8,006 1.0	7,341 3.8	7,608 3.6	7,889 3.7
<b>Housing starts</b> (units)	2,400 -42.7	4,100 70.8	2,900 -29.3	2,800 -3.4	2,854 1.9	2,815 -1.4	2,781 -1.2	2,752 -1.0	2,728 -0.9	2,710 -0.7	2,697 -0.5	2,689 -0.3	3,050 -11.9	2,800 -8.2	2,706 -3.4

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.

## Quebec

- Quebec's economy will continue to benefit from megaprojects.
- Most of the manufacturing sector is recovering, but the slowdown in aerospace will hamper export growth.

### Real GDP

Year	Growth	Ranking
2002	4.2	#2

Year	Growth	Ranking
2003	2.9	#8

### Credit Quality

**A+**  
Standard and Poor's

### Retail Sales

Year	Growth	Ranking
2002	6.9	#3

Year	Growth	Ranking
2003	4.4	#4

### Government & Background Information

Premier Bernard Landry

Next election 2003

Population (2002) 7,432,069

Government balance (fiscal 2001-02) \$0

Source: The Conference Board of Canada.

## COUNTER-CYCLICAL FISCAL POLICY AT WORK

Mathieu Lalonde

Quebec's economy will perform well in 2003, with gross domestic product (GDP) growth of 3 per cent, thanks mainly to construction projects and a recovering manufacturing sector. However, this growth rate will stand below the Canadian average because Quebec's recovery started strong this year while most provincial economies will hit their stride only in 2003. In fact, 2002 is an exceptional year for Quebec: job creation has reached record numbers, housing starts have reached their highest level in 10 years and non-residential construction is thriving. One key source of strength is the provincial government's \$3 billion infrastructure plan, which will boost public gross fixed capital formation by 12.1 per cent in 2002. Accordingly, Quebec's real GDP will grow by 4.2 per cent this year.

While most of Quebec's manufacturing sector is recovering, the slowdown in the aerospace sector will hold export growth to 1.4 per cent in 2002. Exports will bounce back in 2003 with stronger growth in the United States and in the rest of Canada. This said, the recovery in the export sector will be dampened by the closure in September 2002 of the Boisbriand GM car plants.

After an astonishing performance in 2002, Quebec's labour market will post much more modest growth in 2003. Only 35,000 jobs will be created next year, mainly in the construction and service sectors. Consumers will profit from a significant provincial tax cut taking effect next January 1. However, despite the tax break, personal disposable will grow by a modest 3.7 per cent in 2003, mainly because of the slower employment gains during the year.

### LABOUR MARKETS TAKE A BREATH

Quebec's labour market is not expected to match this year's exceptional performance in 2003. Employment is expected to grow by only 1 per cent next year. One of the few areas of strong growth will be construction, where 8,800 names will be added to the payrolls. This sector will

**Most of Quebec's manufacturing sector is recovering, but the slowdown in aerospace will hold back export growth.**

benefit from low vacancy rates and the realization of many important projects in the province. On the other hand, largely as a result of difficulties in the aerospace industry, the manufacturing sector will lose approximately 3,200 jobs during the coming year.

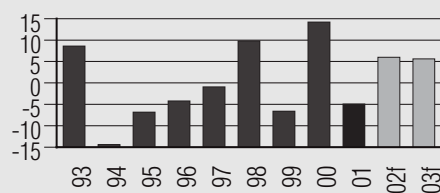
But even with weak employment gains, Quebec's unemployment rate should drop to 8.1 per cent next year, its lowest level in more than 20 years. Some industries, like construction, are experiencing increasing difficulty recruiting qualified workers. Accordingly, Quebec's participation rate will rise to 64.9 per cent in 2002, its highest

### Economic Indicators (percentage change)

	2001	2002	2003
Real GDP (market prices)	1.1	4.2	2.9
Consumer price index	2.4	2.1	2.5
Personal disposable income	4.9	6.0	3.7
Employment	1.1	3.1	1.0
Unemployment rate	8.7	8.5	8.1
Retail sales	4.0	6.9	4.4
Average weekly wages	1.1	2.5	2.5
Population	0.5	0.5	0.4

Source: The Conference Board of Canada.

### Megaprojects Boost Non-Residential Investment (percentage change)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

level ever, and should stay pretty much the same in 2003. Quebec has always had a participation rate lower than the Canadian average; and, while the gap is still there, it has narrowed sharply during the last few years. The difference between the Canadian and the Quebec participation rate will be only 1.8 percentage points in 2002 and 2003, compared to 2.4 percentage points in 2001 or an average of 2.9 percentage points for the 1990–1999 period.

## CONSUMPTION—RETAIL

Quebec taxpayers will benefit from an important tax cut effective on January 1st of next year, but low employment gains will hold back personal disposable income growth to only 3.7 per cent in 2003. This said, Quebec's saving rate is expected to fall from 6 per cent in 2002 to 5.3 per cent in 2003, thus permitting real consumer spending to grow by a good 2.9 per cent despite fairly weak disposable income growth. After the September 2001 terrorist attacks, a sharp drop in consumer confidence significantly boosted Quebec's saving rate. However, consumer confidence quickly rose with the province's exceptional economic performance in 2002; savings rates are therefore expected to

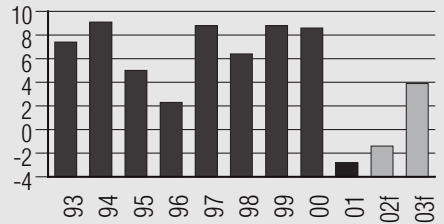
go down, helping to sustain consumer spending. In addition, 2003 will see a re-balancing of consumption away from goods towards services, as the service sector recovers from the impact of September 11. As a result, with a softening of demand for cars and housing-related durables in 2003, retail sales will grow by a modest 4.4 per cent in 2003.

## HOUSING COOLS OFF

Next year will be a good one for the housing sector; but, like employment, it will not be as spectacular as 2002. Low vacancy rates and an excellent labour market will keep demand for new houses high, but rising interest rates will take a toll. In 2003, approximately 37,400 new units will be erected in the residential construction sector. By comparison, as many as 42,400 new houses will be started in 2002. In fact, demand is currently so high that builders are struggling to cope and many buyers are facing long completion delays. Overall, real residential construction will rise by 2.2 per cent in 2003. After an astonishing 23.6 per cent increase in 2002, that is still an impressive gain.

**Housing demand is so high that builders are struggling to cope.**

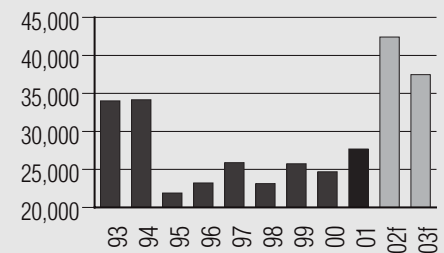
**Exports Bounces Back**  
(percentage change)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

**An Impressive Housing Market**  
(housing starts, units)



f = forecast

Sources: Canada Mortgage and Housing Corporation; The Conference Board of Canada.

## CONSTRUCTION STAYS STRONG

Quebec's economy will continue to benefit from important construction projects in 2003. Hydro-Québec, for example, is currently building one natural-gas and

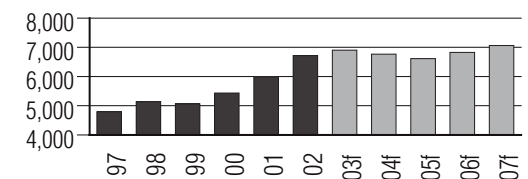
## SPECIAL ISSUE

### *The Return of Hydroelectric Megaprojects?*

Quebec is known for its cheap electricity. Hydro-Québec, the government-owned company that produces and distributes electricity for the province, keeps its resale prices low for domestic consumption, and also for some big industrial consumers like the aluminum smelters. One of the side effects of that policy is that Quebec's electricity consumption is rising fast, and new power plants will be needed soon to keep up with the demand. Hydro-Québec is also doing a very profitable electricity trade with the northeastern states, where consumption is also expected to rise significantly. Moreover, hydroelectricity is produced with low greenhouse gas emissions, thus respecting the Kyoto agreement. The situation might have resulted in the construction of more power plants, but tense relations between Quebec's government and First Nations have been a major obstacle in the development of the province's hydroelectric potential. However, an agreement between the government and Cote-Nord and Saguenay-Lac-St-Jean natives in northeastern Quebec may change this situation significantly. The agreement, which includes some degree of aboriginal self-determination and participation in the development of the region's natural resources, may permit Hydro-Québec to go ahead with some important investments.

As a result of the strong growth in demand and more favourable relations with Aboriginal peoples, new power plants are being built or are planned. The most important of these projects is the \$2.4 billion Ste-Marguerite plant, which is scheduled to be completed in 2003. A few hundred kilometres west of Ste-Marguerite, the \$1 billion Toulmoustoc plant will be completed in 2005. Hydro-Québec is also working on smaller projects around the province and is evaluating other potential sites.

**Hydro Projects Keep Public Investment High After Infrastructure Program Ends**  
(millions of dollars)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.



three hydroelectric power plants. Non-residential investment will also benefit from the provincial government's program to fund the construction and renovation of schools, hospitals, roads and municipal infrastructure, as part of an effort by the provincial government to engage in counter-cyclical investments following the 2001 downturn. With this plan continuing next year, we expect real government investment spending to show a 2.8 per cent increase in 2003, on top of 12.1 per cent growth in 2002. The private sector will also proceed with significant investments in the coming months, such as the construction of the second phase of the Alouette aluminum smelter in Sept-Îles. Overall, real non-residential construction will advance by 6 per cent in 2002 and by 5.6 per cent in 2003.

#### EXPORTS BOUNCE BACK

After a sharp decline at the end of 2001, the export sector is finally improving. However, some factors will hold back the recovery for a while. First, the aerospace industry continues to struggle with a

depressed market. For example, many orders for regional jets at Bombardier for 2003 were recently cancelled. On the other hand, the U.S. armed forces, a major client of the Quebec aerospace industry, is still placing new orders. Accordingly, companies with contracts with the U.S. military are generally doing well. Also certain to affect Quebec's export growth in 2003

will be the closure of the GM car plant at Boisbriand in September of this year. However, other export sectors in Quebec exports will bounce back next year. With the Canadian dollar expected to stay low and strong economic growth in the United States and most provinces, demand for Quebec's export goods should rise significantly in 2003. So, despite the GM plant closure and the problems in the aerospace industry, real exports will grow by 3.9 per cent in 2003.

Weak machinery and equipment investment will be the main reason for a drop of 1.1 per cent in imports this year. However, Quebec's real imports will grow by 5.1 per cent in 2003 as a result of greater machinery investment and strong consumer demand.

### Quebec's economy will continue to benefit from important construction projects in 2003.

#### FORESTRY UPDATE

No agreement has been reached in the softwood lumber trade conflict between the United States and Canada. Quebec producers still face the 27.2 per cent tariff imposed by U.S. authorities for lumber exports south of the border. While Quebec's forest industry relies more on pulp and paper than on softwood lumber, the conflict is still very harmful, especially for some rural communities that rely heavily on lumber mill jobs. Many jobs have been lost throughout the province as a consequence of lumber mill closures. American home-builders would like to be able to lower their costs with access to tariff-free Canadian lumber. Some U.S. Congressmen are also in favor of lifting the fees. However, the U.S. softwood producers lobby is very well organized and will not give up easily.

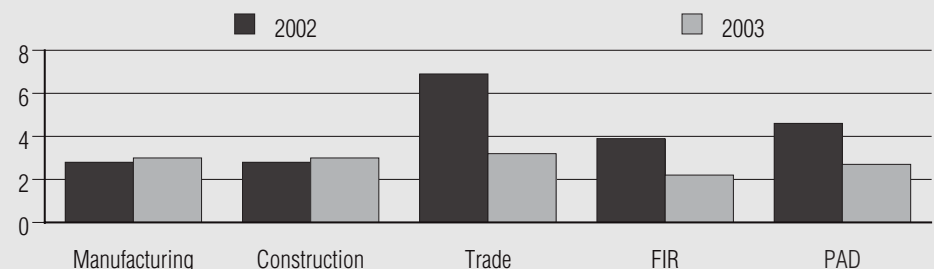
Finally, another promising sign of a reviving economy: Moody's Investor Service has revised Quebec's debt rating, raising the province's quote to A1 as a result of the improvement of its financial performance during recent years.

#### Forecast Risks

- A delayed U.S. recovery could hamper Quebec's manufacturing exports

Source: The Conference Board of Canada.

Industry Outlook  
(percentage change, constant \$)



Sources: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: Quebec

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	237,318 1.6	242,067 2.0	244,671 1.1	245,355 0.3	248,227 1.2	250,864 1.1	254,536 1.5	258,100 1.4	261,534 1.3	263,830 0.9	266,247 0.9	268,244 0.8	242,353 5.4	252,932 4.4	264,964 4.8
<b>GDP at basic prices</b> (current \$)	219,433 1.3	223,781 2.0	225,770 0.9	226,280 0.2	228,954 1.2	231,415 1.1	234,901 1.5	238,282 1.4	241,513 1.4	243,597 0.9	245,800 0.9	247,572 0.7	223,816 5.0	233,388 4.3	244,621 4.8
<b>GDP at basic prices</b> (constant \$ 1997)	204,479 1.8	206,986 1.2	209,525 1.2	210,332 0.4	211,361 0.5	212,840 0.7	214,922 1.0	216,930 0.9	218,753 0.8	220,251 0.7	221,683 0.7	222,991 0.6	207,831 4.0	214,013 3.0	220,919 3.2
<b>Consumer price index</b> (1992=1.0)	1.139 0.8	1.150 0.9	1.163 1.2	1.170 0.6	1.176 0.5	1.182 0.5	1.188 0.5	1.194 0.5	1.201 0.6	1.209 0.7	1.215 0.5	1.220 0.4	1.156 2.1	1.185 2.5	1.211 2.2
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.073 -0.5	1.081 0.7	1.078 -0.3	1.076 -0.2	1.083 0.7	1.087 0.4	1.093 0.5	1.098 0.5	1.104 0.5	1.106 0.2	1.109 0.3	1.110 0.1	1.077 0.9	1.090 1.3	1.107 1.5
<b>Average weekly wages</b> (level)	624 0.9	627 0.5	632 0.7	636 0.7	640 0.6	644 0.6	648 0.6	652 0.6	656 0.6	660 0.7	665 0.7	669 0.7	630 2.5	646 2.5	662 2.6
<b>Personal income</b> (current \$)	198,580 1.5	199,865 0.6	203,129 1.6	204,867 0.9	206,174 0.6	207,777 0.8	210,026 1.1	212,187 1.0	214,775 1.2	216,731 0.9	219,035 1.1	221,153 1.0	201,610 4.0	209,041 3.7	217,924 4.2
<b>Personal disposable income</b> (current \$)	152,091 2.2	153,964 1.2	156,271 1.5	157,464 0.8	158,700 0.8	159,774 0.7	161,425 1.0	162,984 1.0	165,643 1.6	167,235 1.0	168,894 1.0	170,410 0.9	154,947 6.0	160,721 3.7	168,046 4.6
<b>Personal savings rate</b>	6.2	6.0	6.1	5.7	5.6	5.3	5.2	5.1	5.5	5.4	5.2	4.9	6.0	5.3	5.2
<b>Population of labour force age</b> (000s)	6,014 0.2	6,028 0.2	6,039 0.2	6,047 0.1	6,053 0.1	6,073 0.3	6,077 0.1	6,082 0.1	6,102 0.3	6,114 0.2	6,124 0.2	6,134 0.2	6,032 0.8	6,071 0.6	6,118 0.8
<b>Labour force</b> (000s)	3,884 1.1	3,930 1.2	3,934 0.1	3,913 -0.5	3,924 0.3	3,930 0.1	3,939 0.2	3,954 0.4	3,970 0.4	3,988 0.4	3,996 0.2	4,008 0.3	3,915 2.8	3,937 0.6	3,991 1.4
<b>Employment</b> (000s)	3,530 1.1	3,602 2.0	3,599 -0.1	3,601 0.1	3,608 0.2	3,606 0	3,623 0.5	3,637 0.4	3,660 0.6	3,667 0.2	3,682 0.4	3,691 0.2	3,583 3.1	3,618 1.0	3,675 1.6
<b>Unemployment rate</b>	9.1	8.3	8.5	8.0	8.1	8.3	8.0	8.0	7.8	8.0	7.9	7.9	8.5	8.1	7.9
<b>Retail sales</b> (current \$)	68,868 2.7	70,154 1.9	71,342 1.7	72,048 1.0	72,665 0.9	73,322 0.9	74,024 1.0	74,692 0.9	75,626 1.3	76,360 1.0	77,197 1.1	77,998 1.0	70,603 6.9	73,676 4.4	76,795 4.2
<b>Housing starts</b> (units)	41,400 34.7	39,700 -4.1	45,567 14.8	43,000 -5.6	38,129 -11.3	37,653 -1.2	37,220 -1.2	36,830 -1.0	36,483 -0.9	36,179 -0.8	35,918 -0.7	35,700 -0.6	42,417 53.2	37,458 -11.7	36,070 -3.7

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.

## Québec

- L'économie du Québec continuera de profiter de mégaprojets.
- Tandis que le secteur manufacturier de la province jouit d'une reprise quasi généralisée, le secteur de l'aérospatiale vit un ralentissement qui limitera l'expansion des exportations.

### PIB réel

<b>2002</b>	Croissance 4,2	Rang n° 2
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<b>2003</b>	Croissance 2,9	Rang n° 8
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### Qualité du crédit

**A+**

Standard & Poor's

### Ventes au détail

<b>2002</b>	Croissance 6,9	Rang n° 3
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<b>2003</b>	Croissance 4,4	Rang n° 4
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### Renseignements généraux

Premier ministre Bernard Landry

Prochaines élections 2003

Population (2002) 7 432 069

Solde du secteur public  
(exercice 2001-2002) 0 \$

Source : Le Conference Board du Canada.

## LA POLITIQUE BUDGÉTAIRE ANTI- CYCLIQUE À L'ŒUVRE

Mathieu Lalonde

L'économie du Québec se portera bien en 2003, grâce à une croissance de 3 p. 100 du produit intérieur brut (PIB) alimentée essentiellement par différents projets de construction et le redressement du secteur manufacturier. Ce taux d'accroissement sera toutefois inférieur à la moyenne canadienne, car la reprise économique au Québec s'est amorcée avec force cette année, alors que la plupart des économies provinciales trouveront leur rythme en 2003 seulement. En fait, le Québec connaît une année 2002

exceptionnelle : la création d'emplois a atteint des niveaux record, les mises en chantier n'ont jamais été aussi élevées depuis dix ans et la construction non domiciliaire est en plein essor. Une source principale de cette robustesse est le programme provincial d'infrastructure de trois milliards de dollars, qui activera la formation brute de capital fixe du secteur public de 12,1 p. 100 en 2002. En conséquence, le PIB réel du Québec croîtra de 4,2 p. 100 cette année.

Tandis que le secteur manufacturier de la province jouit d'une reprise quasi généralisée, le secteur de l'aérospatiale vit un

ralentissement qui limitera le taux d'expansion des exportations à 1,4 p. 100 en 2002. Ces dernières retrouveront toutefois leur vigueur en 2003 sous l'effet de l'accélération de la croissance aux États-Unis et dans le reste du Canada. Cela dit, la remontée du secteur des exportations sera ralentie par la fermeture, en septembre 2002, de l'usine du fabricant d'automobiles GM à Boisbriand.

Après une performance prodigieuse en 2002, le marché du travail de la province affichera une croissance beaucoup plus modeste en 2003.

**Le secteur manufacturier de la province jouit d'une reprise quasi généralisée, mais l'industrie aérospatiale vit un ralentissement qui freinera l'expansion des exportations.**

Seuls 35 000 emplois seront créés l'année prochaine, surtout dans les secteurs de la construction et des services. Les consommateurs profiteront d'une réduction importante de l'impôt provincial qui entrera en vigueur le 1<sup>er</sup> janvier prochain.

Toutefois, malgré cet allègement fiscal, le revenu disponible des particuliers augmentera d'un maigre 3,7 p. 100 en 2003, en raison principalement de l'amélioration plus timide de l'emploi durant l'année.

### LE MARCHÉ DU TRAVAIL PREND UN MOMENT DE RÉPIT

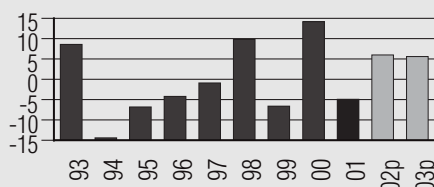
On ne s'attend pas à ce que le marché du travail du Québec répète la performance exceptionnelle de cette année en 2003. En effet, l'emploi devrait croître d'à peine 1 p. 100 l'année prochaine. Quelques secteurs seulement enregistreront une forte expansion, dont celui de la construction,

### Indicateurs économiques (variation en pourcentage)

	2001	2002	2003
<b>PIB réel</b> (aux prix du marché)	1,1	4,2	2,9
<b>Indice des prix à la consommation</b>	2,4	2,1	2,5
<b>Revenu disponible des particuliers</b>	4,9	6,0	3,7
<b>Emploi</b>	1,1	3,1	1,0
<b>Taux de chômage</b>	8,7	8,5	8,1
<b>Ventes au détail</b>	4,0	6,9	4,4
<b>Salaires hebdomadaires moyens</b>	1,1	2,5	2,5
<b>Population</b>	0,5	0,5	0,4

Source : Le Conference Board du Canada.

### Les mégaprojets stimulent l'investissement dans le secteur non résidentiel (variation en pourcentage)



p = prévision

Sources : Statistique Canada; Le Conference Board du Canada.



où 8 800 noms seront ajoutés aux feuilles de paye. Ce secteur profitera de la faiblesse du taux d'inoccupation et de la réalisation de nombreux projets d'envergure dans la province. En revanche, principalement raison des difficultés que connaît l'industrie aérospatiale, le secteur manufacturier perdra quelque 3 200 emplois l'année prochaine.

Même si les gains d'emplois sont faibles, le taux de chômage au Québec devrait baisser à son plus bas niveau en plus de 20 ans pour s'établir à 8,1 p. 100 l'année prochaine. Certains secteurs, dont celui de la construction, éprouvent de plus en plus de difficulté à recruter des travailleurs qualifiés. En conséquence, le taux de participation des Québécois au marché du travail grimpera à 64,9 p. 100 en 2002, son plus haut niveau jamais atteint, et devrait rester sensiblement le même en 2003. À ce chapitre, le Québec s'est toujours situé en deçà de la moyenne canadienne, et s'il est vrai que l'écart n'a pas été comblé, il reste qu'il a été considérablement réduit ces dernières années. Il ne sera que de 1,8 point de pourcentage en 2002 et en 2003, par rapport à 2,4 points de pourcentage en 2001 ou à 2,9 points de pourcentage en moyenne pour la période 1990-1999.

## CONSOMMATION — DÉTAIL

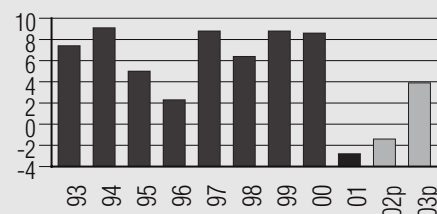
Les contribuables québécois bénéficieront d'une importante réduction des impôts à compter du 1<sup>er</sup> janvier 2003, mais en raison de la faible croissance

de l'emploi, le revenu disponible des particuliers augmentera de seulement 3,7 p. 100 en 2003. Cela étant, nous prévoyons que le taux d'épargne au Québec accusera un recul, passant de 6,0 en 2002 à 5,3 p. 100 en 2003, ce qui permettra aux dépenses réelles de consommation de progresser d'un bon 2,9 p. 100 malgré une croissance du revenu disponible assez anémique. Au lendemain des attentats terroristes de septembre 2001, la baisse abrupte de la confiance des consommateurs avait donné un élan considérable au taux d'épargne au Québec. Toutefois, les consommateurs ont vite repris confiance grâce à l'exceptionnelle performance économique de la province en 2002. On s'attend donc à ce que le taux d'épargne recule, ce qui aidera à soutenir les dépenses de consommation. En outre, en 2003, on observera un rééquilibrage de la consommation en ce sens que les consommateurs délaisseront les marchandises au profit des services, secteur qui est en train de se remettre des contrecoups des attentats du 11 septembre. Par conséquent, avec le relâchement de la demande pour les véhicules automobiles et les biens de consommation durables pour la maison en 2003, les ventes au détail progresseront modestement de 4,4 p. 100 en 2003.

## SECTEUR DU LOGEMENT : C'EST L'ACCALMIE

L'année prochaine sera bonne pour le secteur du logement, mais, comme dans le secteur de l'emploi, les résultats ne seront

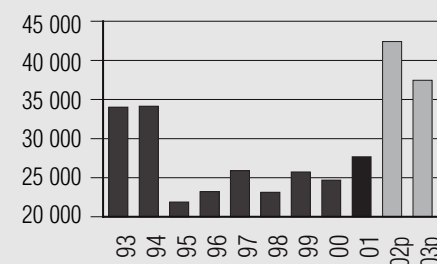
Les exportations rebondissent  
(variation en pourcentage)



p = prévision

Sources : Statistique Canada; Le Conference Board du Canada.

Un marché du logement en plein essor  
(nombre de mises en chantier)



p = prévision

Sources : Société canadienne d'hypothèques et de logement; Le Conference Board du Canada.

pas aussi spectaculaires qu'en 2002. Des taux d'inoccupation bas, d'une part, et un marché du travail excellent, d'autre part, maintiendront élevée la demande pour de nouveaux logements, mais les effets de la hausse des taux d'intérêt se feront

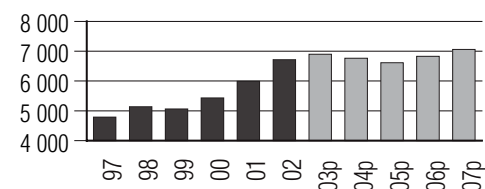
## RUBRIQUE SPÉCIALE

### Le retour des mégaprojets hydroélectriques?

Le Québec est reconnu pour son électricité bon marché. C'est qu'Hydro-Québec, la société d'État qui produit et distribue l'électricité dans la province, maintient bas ses prix de revente aux particuliers, mais aussi à certains grands consommateurs industriels comme les aluminières. Or, un des effets secondaires de cette politique est que la consommation d'électricité au Québec augmente rapidement, et il faudra bientôt construire de nouvelles centrales hydroélectriques pour répondre à la demande. D'autre part, Hydro-Québec réalise des bénéfices non négligeables en faisant affaire avec les États du nord-est des États-Unis, où la consommation devrait aussi augmenter passablement. Il est à noter que la production de l'hydroélectricité cause de faibles niveaux d'émissions de gaz à effet de serre et qu'elle permet, par conséquent, de se conformer à l'Accord de Kyoto. La situation aurait pu déjà entraîner la construction de nouvelles centrales électriques, mais les relations tendues entre le gouvernement du Québec et les Premières nations ont fait achopper le développement du potentiel hydroélectrique de la province. Toutefois, un accord conclu entre le gouvernement et les autochtones de la Côte-Nord et du Saguenay-Lac-St-Jean, dans le Nord-Est du Québec, pourrait changer sensiblement la situation. L'accord, qui prévoit un certain degré d'autodétermination pour les autochtones et la participation de ces derniers à la mise en valeur des ressources naturelles de la région, permettra éventuellement à Hydro-Québec de faire d'importants investissements.

Grâce à un accroissement robuste de la demande et à une amélioration des relations avec les autochtones, la construction de nouvelles centrales électriques a déjà commencé. Le plus important de ces projets est la construction de la centrale de Ste-Marguerite, au coût de 2,4 milliards de dollars, dont on prévoit l'achèvement en 2003. À quelques centaines de kilomètres à l'ouest de Ste-Marguerite se trouvera une autre centrale, celle de Toulouostoc; la fin des travaux est prévue pour 2005. Parallèlement, Hydro-Québec travaille à d'autres projets de moindre envergure un peu partout dans la province et évalue d'autres sites potentiels.

Les projets hydroélectriques continueront de soutenir l'investissement public après le Programme d'infrastructure  
(en millions de dollars)



p = prévision

Sources : Statistique Canada; Le Conference Board du Canada.

lourdement sentir. En 2003, environ 37 400 nouvelles unités seront construites dans le secteur de la construction domiciliaire. À titre de comparaison, jusqu'à 42 400 nouvelles habitations seront mises en chantier en 2002. En fait, la demande actuelle est tellement forte que les constructeurs ont de la difficulté à y répondre, et de nombreux acheteurs sont obligés d'accepter de longs délais de livraison. Dans l'ensemble, la construction domiciliaire réelle enregistrera une expansion de 2,2 p. 100 en 2003. Dans la foulée de la croissance étonnément robuste affichée en 2002, soit 23,6 p. 100, ce taux d'expansion demeure quand même impressionnant.

## LA CONSTRUCTION RESTE FORTE

En 2003, l'économie du Québec continuera de profiter de l'élan que lui donnent d'importants projets de construction. À titre d'exemple, Hydro-Québec construit actuellement une centrale thermique au gaz naturel et trois centrales hydroélectriques. L'investissement non domiciliaire bénéficiera, quant à lui, du programme provincial de financement des projets de construction ou de réfection des écoles, des hôpitaux, des routes et des infrastructures municipales, programme s'inscrivant dans le cadre des efforts déployés par le gouvernement provincial en vue de stimuler les investissements anticycliques à la suite du ralentissement de 2001. Le programme se poursuivant l'année prochaine, nous prévoyons que les dépenses d'investissement réelles du gouvernement augmenteront de 2,8 p. 100 en 2003, par-delà les 12,1 p. 100 enregistrés en 2002. De son côté, le secteur privé fera des investissements substantiels dans les mois à venir, notamment pour la construction de la deuxième phase de l'aluminerie Alouette à Sept-Îles. La construction non domiciliaire réelle affichera une croissance globale de 6 p. 100 en 2002 et de 5,6 p. 100 en 2003.

## LES EXPORTATIONS SE RELÈVENT

Après une rapide régression à la fin de 2001, le secteur des exportations se relève enfin. Cela dit, certains facteurs retarderont quelque peu la reprise. D'abord, l'industrie aéronautique continue de battre de l'aile sur un marché déprimé. Ainsi, bon nombre de commandes pour des jets régionaux de Bombardier pour 2003 ont récemment été

annulées. Par contre, les forces armées américaines, un des principaux clients de l'industrie aéronautique du Québec, continuent de passer de nouvelles commandes. C'est ce qui explique la posture généralement bonne des entreprises qui ont conclu des contrats avec l'armée américaine. Un des facteurs qui influera inéluctablement sur la croissance des exportations québécoises en 2003 sera la fermeture de l'usine automobile de GM à Boisbriand en septembre de cette année. Il n'empêche que d'autres secteurs d'exportation de la province connaîtront une reprise l'année prochaine. Comme on s'attend à ce que le dollar canadien reste bas et que les économies des États-Unis et de la plupart des provinces jouissent d'une expansion économique vigoureuse, la demande pour les biens d'exportation québécois devrait s'intensifier sensiblement en 2003. Par conséquent, en dépit de la fermeture de l'usine GM et des malaises de l'industrie aéronautique, les exportations réelles afficheront une hausse de 3,9 p. 100 en 2003.

Faible, l'investissement dans le matériel et l'outillage sera la principale cause de la baisse de 1,1 p. 100 qu'accuseront les importations cette année. Les importations réelles du Québec grimperont toutefois de 5,1 p. 100 en 2003 sous l'effet d'un investissement accru dans le matériel et d'une demande de consommation élargie.

## DERNIÈRES NOUVELLES DU SECTEUR FORESTIER

Au chapitre du bois d'œuvre résineux, les États-Unis et le Canada n'ont pas encore trouvé de terrain d'entente. Les producteurs québécois sont toujours sous le coup du tarif douanier de 27,2 p. 100 imposé par les

autorités américaines sur les exportations de bois d'œuvre. Certes, le secteur forestier du Québec dépend plus des pâtes et papiers que du bois d'œuvre résineux, mais le différend avec les États-Unis demeure très préjudiciable, notamment pour certaines collectivités rurales tributaires des scieries. Bien des emplois ont été perdus à l'échelle de la province par suite de la fermeture de scieries. Pour leur part, les constructeurs d'habitations américains aimeraient bien pouvoir réduire leurs frais en ayant accès à du bois d'œuvre résineux canadien en franchise. Certains députés au Congrès sont aussi partisans de la levée des droits douaniers. Or, le lobby des producteurs de bois d'œuvre américains est très bien organisé et ne cédera pas facilement.

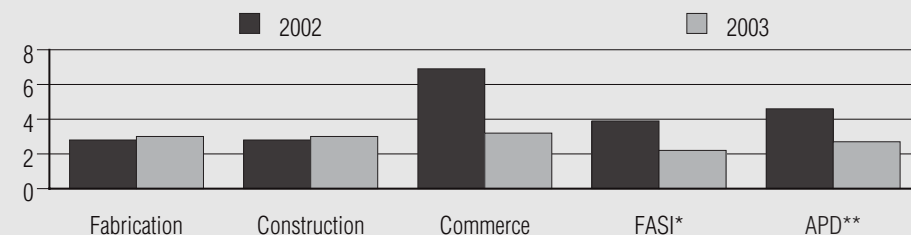
Enfin, autre signe prometteur du redressement de l'économie de la province, l'agence de notation Moody's Investor Service vient de réviser à la hausse la cote de solvabilité du Québec, lui accordant A1 en raison de l'amélioration de sa performance financière ces dernières années.

### Scénarios conjoncturels

- Si la reprise économique aux États-Unis tarde, les exportations manufacturières du Québec risquent d'en souffrir.

Source : Le Conference Board du Canada.

Perspectives sectorielles  
(variation en pourcentage, dollars constants)



\* Finances, assurances et services immobiliers

\*\* Administration publique et défense

Sources : Statistique Canada; Le Conference Board du Canada.

Principaux indicateurs économiques : Québec  
(Prévisions en date du 21 octobre 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>PIB aux prix du marché</b> (en dollars courants)	237 318 1,6	242 067 2,0	244 671 1,1	245 355 0,3	248 227 1,2	250 864 1,1	254 536 1,5	258 100 1,4	261 534 1,3	263 830 0,9	266 247 0,9	268 244 0,8	242 353 5,4	252 932 4,4	264 964 4,8
<b>PIB aux prix de base</b> (en dollars courants)	219 433 1,3	223 781 2,0	225 770 0,9	226 280 0,2	228 954 1,2	231 415 1,1	234 901 1,5	238 282 1,4	241 513 1,4	243 597 0,9	245 800 0,9	247 572 0,7	223 816 5,0	233 388 4,3	244 621 4,8
<b>PIB aux prix de base</b> (en dollars constants de 1997)	204 479 1,8	206 986 1,2	209 525 1,2	210 332 0,4	211 361 0,5	212 840 0,7	214 922 1,0	216 930 0,9	218 753 0,8	220 251 0,7	221 683 0,7	222 991 0,6	207 831 4,0	214 013 3,0	220 919 3,2
<b>Indice des prix à la consommation</b> (1992 = 1,0)	1,139 0,8	1,150 0,9	1,163 1,2	1,170 0,6	1,176 0,5	1,182 0,5	1,188 0,5	1,194 0,5	1,201 0,6	1,209 0,7	1,215 0,5	1,220 0,4	1,156 2,1	1,185 2,5	1,211 2,2
<b>Déflateur implicite des prix— PIB aux prix de base</b> (1997 = 1,0)	1,073 -0,5	1,081 0,7	1,078 -0,3	1,076 -0,2	1,083 0,7	1,087 0,4	1,093 0,5	1,098 0,5	1,104 0,5	1,106 0,2	1,109 0,3	1,110 0,1	1,077 0,9	1,090 1,3	1,107 1,5
<b>Salaires hebdomadaires moyens</b> (niveau)	624 0,9	627 0,5	632 0,7	636 0,7	640 0,6	644 0,6	648 0,6	652 0,6	656 0,6	660 0,7	665 0,7	669 0,7	630 2,5	646 2,5	662 2,6
<b>Revenu des particuliers</b> (en dollars courants)	198 580 1,5	199 865 0,6	203 129 1,6	204 867 0,9	206 174 0,6	207 777 0,8	210 026 1,1	212 187 1,0	214 775 1,2	216 731 0,9	219 035 1,1	221 153 1,0	201 610 4,0	209 041 3,7	217 924 4,2
<b>Revenu disponible des particuliers</b> (en dollars courants)	152 091 2,2	153 964 1,2	156 271 1,5	157 464 0,8	158 700 0,8	159 774 0,7	161 425 1,0	162 984 1,0	165 643 1,6	167 235 1,0	168 894 1,0	170 410 0,9	154 947 6,0	160 721 3,7	168 046 4,6
<b>Taux d'épargne des particuliers</b>	6,2	6,0	6,1	5,7	5,6	5,3	5,2	5,1	5,5	5,4	5,2	4,9	6,0	5,3	5,2
<b>Population en âge d'être active</b> (en milliers)	6 014 0,2	6 028 0,2	6 039 0,2	6 047 0,1	6 053 0,1	6 073 0,3	6 077 0,1	6 082 0,1	6 102 0,3	6 114 0,2	6 124 0,2	6 134 0,2	6 032 0,8	6 071 0,6	6 118 0,8
<b>Population active</b> (en milliers)	3 884 1,1	3 930 1,2	3 934 0,1	3 913 -0,5	3 924 0,3	3 930 0,1	3 939 0,2	3 954 0,4	3 970 0,4	3 988 0,4	3 996 0,2	4 008 0,3	3 915 2,8	3 937 0,6	3 991 1,4
<b>Emplois</b> (en milliers)	3 530 1,1	3 602 2,0	3 599 -0,1	3 601 0,1	3 608 0,2	3 606 0	3 623 0,5	3 637 0,4	3 660 0,6	3 667 0,2	3 682 0,4	3 691 0,2	3 583 3,1	3 618 1,0	3 675 1,6
<b>Taux de chômage</b>	9,1	8,3	8,5	8,0	8,1	8,3	8,0	8,0	7,8	8,0	7,9	7,9	8,5	8,1	7,9
<b>Ventes au détail</b> (en dollars courants)	68 868 2,7	70 154 1,9	71 342 1,7	72 048 1,0	72 665 0,9	73 322 0,9	74 024 1,0	74 692 0,9	75 626 1,3	76 360 1,0	77 197 1,1	77 998 1,0	70 603 6,9	73 676 4,4	76 795 4,2
<b>Mises en chantier</b> (en unités)	41 400 34,7	39 700 -4,1	45 567 14,8	43 000 -5,6	38 129 -11,3	37 653 -1,2	37 220 -1,2	36 830 -1,0	36 483 -0,9	36 179 -0,8	35 918 -0,7	35 700 -0,6	42 417 53,2	37 458 -11,7	36 070 -3,7

Les données en blanc sont des prévisions.

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

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

Sources : Statistique Canada; Société canadienne d'hypothèques et de logement; Le Conference Board du Canada.

## Ontario

- Solid consumer demand and U.S. exports expected to drive economic growth into 2003.
- Upward employment trend expected to strengthen into 2003.

### Real GDP

Year	Growth	Ranking
2002	3.5	#6

Year	Growth	Ranking
2003	3.7	#3

### Credit Quality

**AA**

Standard & Poor's

### Retail Sales

Year	Growth	Ranking
2002	5.3	#7

Year	Growth	Ranking
2003	4.7	#2

### Government & Background Information

Premier Ernie Eves

Next election 2004

Population (July, 2002) 12,068,301

Government balance (2002-03) \$0

Source: The Conference Board of Canada.

## ECONOMIC ENGINE IN HIGH GEAR

Patrick Codrington

Another quarter and more good news: 2002 is turning out to be an excellent year for the Ontario economy, as it continues to impress on all fronts. Real gross domestic product (GDP) at market prices is expected to grow by a solid 3.5 per cent this year and 3.7 per cent in 2003.

One of the biggest stories in the economy this year has been the consumer. Households shrugged off the sense of doom and gloom that prevailed in the economy during the early stages of 2002 and have continued to consume in abundance. Consumption growth in goods and services has been robust this year and this trend is expected to continue well into next year. The spendthrift consumer has taken advantage of historically low interest rates, creating a housing boom. Housing starts are expected to descend from their current record levels, but will remain strong into next year as housing supply is snapped up in advance of mortgage rate hikes.

Consumer confidence measures reached their highest level in over 10 years in the second quarter, and although levels retreated in the third quarter they remain high, and with good reason. Personal income has been on

the upswing as a result of impressive employment gains and is projected to grow 3.5 per cent this year and 4.7 per cent in 2003.

Ontario's employment market finally showed some signs of strengthening in recent months. Strong third quarter employment numbers were welcome news after lacklustre job gains in the first two quarters of the year. Ontario created 32,000 new jobs in September alone, accounting for

3 out of every 4 jobs created nationwide in that month. Employment

growth is expected to continue and strengthen for the remainder of this year and on into 2003. Total employment is expected to grow by 1.4 per cent this year and an additional 2 per cent in 2003.

Surging goods exports, particularly auto related, continue to be one of the main drivers for GDP growth and job creation, as high demand

continues for cars and trucks south of the border. Goods exports are forecast to grow by 4.8 per cent this year, followed by 4 per cent next year.

**Disposable income increases, in combination with very strong consumer sentiment, should keep consumer demand solid into next year.**

### CONSUMER SPENDING

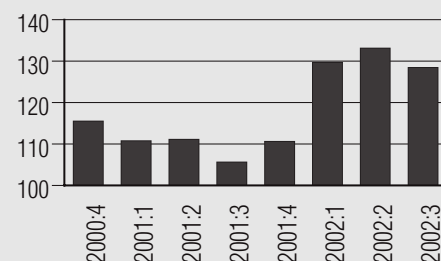
Faced with great uncertainty following the events of September 11th, rather than shrinking back from purchases the consumer has gone to malls and dealer lots with chequebook in hand, ready to spend. The attraction of deep price discounts by retailers and low interest rates caused a surge in consumer spending on interest-sensitive durable and semi-durable goods in the last quarter of 2001.

### Economic Indicators (percentage change)

	2001	2002	2003
<b>Real GDP</b> (market prices)	0.9	3.5	3.7
<b>Consumer price index</b>	3.1	2.3	2.8
<b>Personal disposable income</b>	3.8	4.3	4.5
<b>Employment</b>	1.5	1.4	2.0
<b>Unemployment rate</b>	6.3	7.3	7.0
<b>Retail sales</b>	2.6	5.3	4.7
<b>Average weekly wages</b>	2.0	2.2	3.3
<b>Population</b>	1.6	1.4	1.3

Source: The Conference Board of Canada.

### Consumer Confidence Index (1991=100)



Source: The Conference Board of Canada.

The gains made in quarter four of 2001 were built upon in the first quarter of this year, and since then consumer spending has continued relatively unabated despite a slowing in the size and frequency of retailer discounts. New vehicles have been on many consumers' shopping lists. Retailer discounts on autos in the form of low interest financing, many of which have been in place since the final quarter of last year, have propelled new vehicle demand, increasing car sales for the first eight months of the year 8.5 per cent above the same period last year. Consumer demand for services and non-durable goods, which are much less sensitive to interest rates, have also grown but more moderately.

Next year should bring an end to significant retailer discounts and historically low interest rates, which would typically be expected to slow consumer spending growth considerably. However, due to improved job creation, personal disposable income in the province is expected to post robust 4.5 per cent growth in 2003. Disposable income increases, in combination with very strong consumer sentiment, should keep consumer demand solid into next year. Overall real consumer spending on goods is expected to rise 2.6 per cent this year, followed by 3.4 per cent in 2003.

## CONSTRUCTION

Another sector in which the exuberance of the consumer has been felt has been the construction industry. Ontario housing starts have hit record levels. Single-unit residential starts are set to show a spectacular 29.2 per cent growth rate this year, and total starts are set to advance 15.4 per cent. Historically low mortgage rates have been the main driver behind the surge in construction. Rates, which fell precipitously last year and have remained at very low levels, are set to move up during the course of 2003 as the Bank of Canada gradually hikes interest rates to head off inflationary pressures building in the economy.

Higher mortgage rates should halt the growth of housing starts next year. Starts are expected to decline in all provinces, with Ontario housing starts to shrink some 8.8 per cent, but housing starts will remain at historically high levels even with the decline.

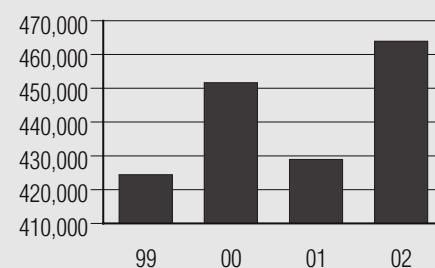
Construction output is also benefiting from strong non-residential growth. Growth rates for non-residential investment are set to climb 5.1 and 7.1 per cent in 2002 and 2003 respectively. Overall, construction sector growth is projected at 3.7 per cent in 2003 on the back of 3.9 per cent growth rate this year.

**Inflation Heating Up**  
(percentage change)



Source: The Conference Board of Canada.

**January-to-August Motor Vehicle Sales**  
(units)



Sources: Statistics Canada; The Conference Board of Canada.

## EMPLOYMENT

After finding itself at the rear of the provincial employment pack early in the year, Ontario's employment market picked up the pace in the third quarter. Quarter to

### *Auto Sector Update*

Reports of the closure of the Navistar truck manufacturing facility put a large damper on what has otherwise been very positive news originating from Ontario's auto sector in recent months. Navistar will shut its Chatham-area plant in the second quarter of next year and move its production to Mexico. The closure of the plant, which produced approximately 60 trucks per day, will hit the Chatham economy particularly hard, as Navistar is the largest employer in the area, employing 1,000 people. The closure is the latest blow to Canada's heavy truck manufacturing industry. Persistently weak heavy truck demand had already forced last month's closure of Navistar competitor Western Star Truck's assembly plant in British Columbia.

The fortunes of automobile manufacturing, however, appear to have improved. After a string of plant closures and thousands of layoffs in the past three years, the tone of news coming out of the car sector recently is distinctly brighter. Agreements between the big three auto manufacturers and the auto unions were recently achieved without the need for costly strike action. As part of its agreement with the unions, DaimlerChrysler has committed to build a new \$600 million car plant in Windsor that is expected to go into production at the end of 2005, employing between 2,000 and 3,000. Toyota announced it would boost production capacity by 25 per cent, or 50,000 vehicles, at its Cambridge location, creating more than 1,000 direct and indirect positions. Cami Automotive Inc., a joint venture of General Motors and Suzuki Motor Co., announced that it would invest \$500 million over the next two years to allow for the retooling of existing assembly lines at its Ingersoll plant. This will increase annual production to approximately 100,000 units beginning in 2004, up from 80,000 produced at the plant last year.



quarter growth in employment of 0.5 per cent fell behind the national quarterly growth averages 0.7 and 0.9 per cent in first and second quarters respectively, but 1 per cent third quarter growth pushed the province 0.2 per cent ahead of the national average.

However, the September statistics showing 32,000 new jobs masked the fact that all jobs were part-time and that full-time positions had actually declined slightly in the month. Despite this word of caution, the strong performance of the Ontario economy this year and its expected continued strength into next will ensure that the September employment gains will be maintained and built upon in upcoming quarters. Annual employment growth is expected to be the third highest in the nation next year at 2 per cent.

The strengthening Ontario job market also enticed a large numbers of disenfranchised workers back to the labour force. Participation rates, which in September reached levels not seen since September 1991, have caused Ontario's monthly unemployment rate to edge upward since March 2002 despite job growth.

## EXPORTS

The hardships of some of the country's largest exporters such as Bombardier, Alcatel and Nortel have been much publicized. In the face of weakening export markets for their products, these three firms have more than once announced layoffs this year, including their latest, totalling 2,000 employees at their Ontario operations. Other Ontario goods exporters have fared much better as a whole and have seen sales rebound strongly this year after a 3.1 per cent decline in goods exports in 2001.

International auto and parts exports demand, fuelled by dealer financing incentives and a rush to purchase vehicles in advance of stringent new U.S. emission regulations on truck engines, will grow 3.6 per cent this year. The growth marks a turning point in the fortunes of auto

exporters after two years of declines in exports, including a 6.7 per cent dive last year. Auto exports have been only part of the story. Ontario exports of non-automobile-related goods have also shown excellent growth and are set to expand 5.5 per cent this year, before slowing to a still

respectable 3.1 per cent next year.

While not growing as strongly as Ontario's international goods exports, service exports should see growth this year and next at close to 3 per cent.

The stronger than expected economic strength north of the border has also increased Canadian demand for Ontario goods and services.

After growing only 0.9 per cent last year, interprovincial goods and service exports, which account for approximately a quarter of all Ontario exports, are set to grow by 2.4 per cent this year and 3.7 per cent next year.

## Strong third quarter employment numbers were welcome news after lacklustre job gains in the first two quarters of the year.

## INFLATION HEATING UP

With the current economic expansion, the spectre of inflation has appeared in Ontario once again. Quarterly inflation has been on a steady rise each quarter this year, and many are starting to take notice, including the Bank of Canada. After a big monthly jump in March, inflation appeared to have moderated, but July and August figures showed big 0.8 and 0.7 per cent jumps.

July's increase was partly due to a one-time increase in Ontario cigarette taxes, and the August increase came as

result of soaring electricity prices. Increased air conditioner usage with record summer heat caused prices to spike on the newly deregulated Ontario electricity market. The energy price index jumped 2.5 per cent in July, followed by an even steeper 8.1 per cent in August as demand caused electricity generation to be pushed to full capacity, forcing prices through the roof. Increases in generation capacity should ease upward price pressures with the restarting of generating units at both the Bruce and Pickering Nuclear generation facilities and cooling temperatures.

The annual rate of inflation this year is expected to advance by 2.3 per cent. The rate is expected to accelerate to 2.8 per cent next year as the economy pushes closer to full capacity and retailers increase prices after deeply discounting merchandise during recent quarters in the face of the uncertainty following September 11th.

### Forecast Risks

**Short term**

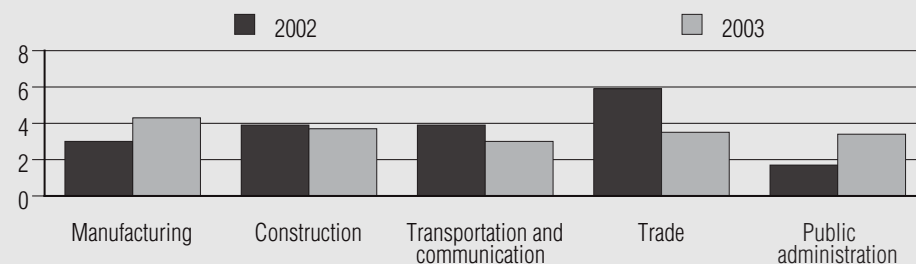
- Growing U.S. pessimism could spread to Ontario, stalling strong domestic consumer demand.

**Medium term**

- Strong appreciation of the Canadian dollar could dampen export growth.

Source: The Conference Board of Canada.

Industry Outlook  
(percentage change, 1997 \$)



Source: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: Ontario

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	453,730 3.5	460,307 1.4	466,354 1.3	470,115 0.8	477,389 1.5	483,023 1.2	490,929 1.6	498,562 1.6	505,695 1.4	509,093 0.7	515,206 1.2	520,556 1.0	462,627 4.6	487,476 5.4	512,637 5.2
<b>GDP at basic prices</b> (current \$)	416,416 3.3	422,155 1.4	426,920 1.1	430,320 0.8	437,178 1.6	442,448 1.2	449,966 1.7	457,213 1.6	463,926 1.5	466,882 0.6	472,546 1.2	477,427 1.0	423,953 4.1	446,701 5.4	470,195 5.3
<b>GDP at basic prices</b> (constant \$ 1997)	399,720 1.5	404,407 1.2	408,872 1.1	411,268 0.6	414,192 0.7	417,687 0.8	422,433 1.1	426,884 1.1	430,016 0.7	433,229 0.7	436,310 0.7	439,273 0.7	406,067 3.4	420,299 3.5	434,707 3.4
<b>Consumer price index</b> (1992=1.0)	1.183 0.6	1.196 1.1	1.214 1.5	1.223 0.7	1.229 0.5	1.235 0.5	1.241 0.5	1.247 0.5	1.254 0.6	1.263 0.7	1.269 0.5	1.275 0.5	1.204 2.3	1.238 2.8	1.265 2.2
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.042 1.8	1.044 0.2	1.044 0	1.046 0.2	1.055 0.9	1.059 0.4	1.065 0.6	1.071 0.6	1.079 0.7	1.078 -0.1	1.083 0.5	1.087 0.4	1.044 0.6	1.063 1.8	1.082 1.8
<b>Average weekly wages</b> (level)	725 0.1	728 0.4	742 1.9	749 0.9	752 0.5	757 0.7	762 0.7	768 0.8	774 0.7	780 0.8	786 0.8	793 0.8	736 2.2	760 3.3	783 3.1
<b>Personal income</b> (current \$)	366,516 1.6	371,042 1.2	374,279 0.9	377,720 0.9	383,139 1.4	386,867 1.0	392,073 1.3	397,165 1.3	401,231 1.0	405,823 1.1	410,263 1.1	414,808 1.1	372,389 3.5	389,811 4.7	408,031 4.7
<b>Personal disposable income</b> (current \$)	279,459 1.9	284,784 1.9	286,978 0.8	289,325 0.8	293,108 1.3	295,660 0.9	299,489 1.3	303,171 1.2	307,766 1.5	311,569 1.2	314,759 1.0	318,014 1.0	285,136 4.3	297,857 4.5	313,027 5.1
<b>Personal savings rate</b>	7.5	8.2	7.9	7.6	7.5	7.1	7.1	7.0	7.3	7.2	7.1	6.8	7.8	7.2	7.1
<b>Population of labour force age</b> (000s)	9,559 0.4	9,605 0.5	9,653 0.5	9,728 0.8	9,757 0.3	9,787 0.3	9,838 0.5	9,889 0.5	9,907 0.2	9,946 0.4	9,993 0.5	10,031 0.4	9,636 1.9	9,818 1.9	9,969 1.5
<b>Labour force</b> (000s)	6,454 0.9	6,479 0.4	6,558 1.2	6,596 0.6	6,601 0.1	6,599 0	6,638 0.6	6,680 0.6	6,690 0.2	6,715 0.4	6,747 0.5	6,775 0.4	6,522 2.5	6,630 1.7	6,732 1.5
<b>Employment</b> (000s)	5,996 0.5	6,025 0.5	6,083 1.0	6,089 0.1	6,121 0.5	6,134 0.2	6,186 0.8	6,233 0.8	6,249 0.3	6,282 0.5	6,308 0.4	6,334 0.4	6,048 1.4	6,169 2.0	6,293 2.0
<b>Unemployment rate</b>	7.1	7.0	7.2	7.7	7.3	7.0	6.8	6.7	6.6	6.4	6.5	6.5	7.3	7.0	6.5
<b>Retail sales</b> (current \$)	114,242 2.7	113,724 -0.5	115,447 1.5	116,616 1.0	118,302 1.4	119,608 1.1	121,087 1.2	122,517 1.2	123,855 1.1	125,427 1.3	126,809 1.1	128,297 1.2	115,007 5.3	120,378 4.7	126,097 4.8
<b>Housing starts</b> (units)	89,600 23.9	79,900 -10.8	83,870 5.0	85,000 1.3	78,580 -7.6	77,538 -1.3	76,593 -1.2	75,745 -1.1	74,995 -1.0	74,343 -0.9	73,788 -0.7	73,330 -0.6	84,592 15.4	77,114 -8.8	74,114 -3.9

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.



## Manitoba

- Unemployment is expected to fall to 4.3 per cent next year, the lowest unemployment rate in any province.
- Construction will be dominated by non-residential investment projects.

### Real GDP

2002	Growth	Ranking
	3.7	#4

2003	Growth	Ranking
	3.0	#7

### Credit Quality

**AA-**  
Standard & Poor's

### Retail Sales

2002	Growth	Ranking
	7.5	#2

2003	Growth	Ranking
	3.7	#7

### Government & Background Information

Premier Gary Doer

Next election 2004

Population (July 2002) 1,149,000

Government balance  
(2002–03 updated Q1) \$10 million

Source: The Conference Board of Canada.

## STRENGTH IN DIVERSITY

David Madani

Manitoba's well-diversified economy will allow the province to proceed steadily through the current precarious economic and geopolitical times, with real gross domestic product (GDP) expected to grow by 3.7 per cent this year. Unlike conditions in other Prairie provinces, the agriculture sector will help bolster the bottom line, with real agriculture output set to grow by 3 per cent in 2003 and 3.1 per cent in 2004.

A normal crop year, combined with sustained strength in the livestock sector, will allow output in the province's diversified agriculture industry to return to normal levels over the forecast period. After a strong comeback this year, output in the agriculture sector is expected to grow by a further 5 per cent in 2003. Steady growth in the manufacturing sector is anticipated over the next two years, thanks to strength in the food, machinery and transportation equipment industries. A significant weakening in housing demand is expected to lead to a decline of 1.2 per cent in construction in 2003. Overall, the goods-producing sector will grow by 5.3 per cent in 2002 and 3.4 per cent in 2003.

The service-producing industries as a whole will fare relatively well next year, with overall growth of 2.8 per cent anticipated, compared to 3.1 per cent in 2002.

The slower paced performance next year is mainly attributed to weaker employment growth and fewer housing starts. Weaker employment growth and a smaller round of provincial tax cuts next year will increase disposable incomes by only 3 per cent, compared to a hike of 5 per cent this year. Retail sales are expected to grow on average by 4 per cent over 2002–2003.

## AGRICULTURE BOOSTS ECONOMIC ACTIVITY

The Manitoba agriculture sector has been more fortunate this year than last, when it faced drought and flooding conditions.

Early in the growing season, many farmers waited for precipitation before making planting decisions. In addition, low commodity prices and the bearish influence of the

**More than 3,600 new housing units could be built this year, the best performance since 1989.**

U.S. Farm Bill influenced the difficult decision of which crops to plant. In the end, farmers opted to increase seeding of durum wheat, oats, and canola, but cut back plantings of red spring wheat, barley and mixed grains. Some early rain and minor flooding in the province followed by generally warm temperatures resulted in good growing conditions. Good weather during the harvesting cycle allowed farmers to complete most of the harvest. In general, yields were average to above average, with the harvested-to-seeded ratios of many crops slightly higher than in 2001.

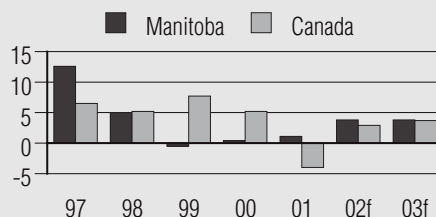
The outlook for Manitoba's livestock industry remains good. Pork prices dropped considerably during September, but recently stabilized and are expected to remain so for

### Economic Indicators (percentage change)

	2001	2002	2003
<b>Real GDP (basic prices)</b>	1.6	3.7	3.0
<b>Consumer price index</b>	2.7	1.7	2.6
<b>Personal disposable income</b>	4.0	5.0	3.0
<b>Employment</b>	0.6	1.6	1.3
<b>Unemployment rate</b>	5.0	5.1	4.3
<b>Retail sales</b>	5.7	7.5	3.7
<b>Average weekly wages</b>	0.6	2.1	2.7
<b>Population</b>	0.2	0.2	0.5

Source: The Conference Board of Canada.

### Manufacturing to Outperform National Rate (percentage change, 1997 \$)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

most of the fourth quarter of 2002. The price drop was due mainly to slaughter capacity constraints in Western Canada and the United States, and high meat inventories. Prices are not expected to increase further until early in 2003. The average slaughter "all-in" price for hogs killed by federally inspected slaughter plants in Manitoba is lower than in 2001. Slaughter of hogs in Manitoba is almost 7 per cent higher than at this time last year. Maple Leaf's Brandon plant now processes about 10,000 hogs per day. Cattle slaughter shows a year-over-year increase as well. Overall, output in the agriculture sector is expected to jump by 13.1 per cent this year and by 5 per cent next year.

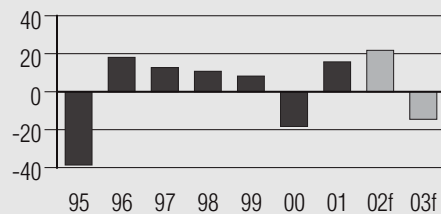
The federal government's Agricultural Policy Framework, announced earlier this year in response to increased U.S. farm subsidies, promised some relief for the agriculture industry as a whole. Besides providing some immediate support to those most affected by drought, the new program aims to promote better use of agricultural land, make money available for investment in agriculture innovation, and support and enhance export opportunities. The total package could be worth about \$8.2 billion dollars over the next six years if the provinces participate fully. Of that amount, the federal government contribution will be \$5.2 billion. Early in September, Manitoba agreed to join the cost-sharing arrangements of

the new policy for five years, beginning in 2003. The Manitoba government, which provides \$75 million a year to producers under existing federal-provincial programs, is expected to spend another \$450 million on programs over the life of the agreement.

### MANUFACTURING SHOWS STRENGTH

The manufacturing sector is expected to hold its own over the next two years, with growth of 3.8 per cent, thanks to continued strength in the processed foods, plastics and rubber, and machinery and transportation equipment industries. Much of the recent news from the province's manufacturing sector has been dominated by the bus and aerospace industries. Government intervention and union concessions have kept Motor Coach Industries (MCI) from moving out of the province. MCI will rapidly expand its bus-manufacturing operations in the province over the medium term as it consolidates its North American operations in Manitoba. Magellan Aerospace received new orders earlier this year worth over \$20 million to manufacture aerostructure assemblies for the AgustaWestland Cormorant helicopter. Magellan's Bristol in Winnipeg will share the order with Fleet facilities in Fort Erie, Ontario, to manufacture composite and sheet metal assemblies for delivery in 2003 and beyond. Manitoba's

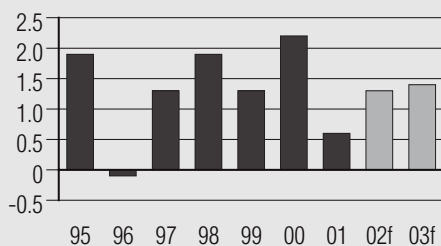
**Housing Starts Expected to Decline**  
(percentage change, 1997 \$)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

**Steady Employment Growth**  
(percentage change, 1997 \$)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

agri-food industry will get a boost from the new J.R. Simplot potato-processing plant and the two rural hog-processing plants.

### *The Canadian Wheat Board: Under Fire*

The Canadian Wheat Board (CWB) has come under fire from our major trading partner, the United States. The North Dakota Wheat Commission recently filed antidumping and countervailing duty petitions against the CWB, demanding import duties of up to 37.5 per cent on Canadian wheat and durum. The U.S. Department of Commerce has announced that it would proceed with an investigation into the petitions filed by the North Dakota Wheat Commission. If this complaint is carried further, a panel of the World Trade Organization (WTO) could, by finding CWB's export practices illegal, impose sanctions on the industry if Canada does not change the way the country's wheat is marketed.

The WTO agreement on agriculture specifically allows state trading enterprises like the Canadian Wheat Board to operate without sanction as long as they adhere to commercial business practices. Thus, an investigation would focus on the business practices of the CWB. Presumably the U.S. would allege that the CWB doesn't operate according to commercial considerations that include such factors as price, quality, availability, marketability and transportation.

For many observers, this assault on the Canadian wheat industry comes as no surprise, as American groups have challenged the CWB on nine previous occasions, most recently in February 2002. On no occasion were punitive tariffs ever applied. Recent investigations by the International Trade Commission have found little evidence to support new tariffs on Canadian wheat and durum. As a result, no action was taken because it would violate the U.S. commitment to the World Trade Organization and the North American Free Trade Agreement.

## HOUSING STARTS EXPECTED TO SLOW IN 2003

Solid housing demand in the province is expected to help the construction industry grow by 6.1 per cent this year. More than 3,600 new units could be built, the best performance since 1989. The number of housing starts is expected to increase by 21.8 per cent this year, but rising mortgage rates will result in a drop of 14.5 per cent next year. However, non-residential construction is expected to offset this trend, growing by 9.7 per cent this year and 5.7 per cent next year on the strength of strong private and public investment spending in mining, energy and institutional projects. These projects include the Hudson Bay Mining and Smelting Company's so-called 777 group of projects, Manitoba Hydro's proposed \$1 billion Wuskawatom Dam, and the Brandon Regional Health Centre. Accordingly, despite the weakness in housing, the construction industry as a whole is expected to decline by only 1.2 per cent in real terms next year. Total investment spending in the province is expected to grow by 2.3 per cent this year and 2.6 per cent next year.

## SERVICES HELP THE BOTTOM LINE

The service sector is expected to grow by 2.8 per cent in 2003, compared to 3.1 per cent this year. The more slow paced performance next year is mainly attributed to weaker employment growth and a decline in residential construction.

## EMPLOYMENT OUTLOOK IMPRESSIVE

**Stronger employment growth and tax cuts this year and next will increase disposable incomes by 4 per cent on average over the 2002-03 period.**

The optimistic outlook for employment is leading many to re-enter the labour force this year. Thus, growth in the labour force is expected to match employment growth, leaving the unemployment rate unchanged this year at 5.1 per cent, well below the national rate of 7.7 per cent. The unemployment rate is expected to fall to 4.3 per cent next year, lower than in any other province, as employment growth outpaces the labour force. Employment growth, combined with this year's tax cuts and those expected early next year, will increase personal disposable income by 5 per cent this year and 3 per cent next year. As a result, retail sales are expected to slow to 3.7 per cent next year after a brisk 7.5 per cent gain this year.

### Forecast Risks

#### Short term

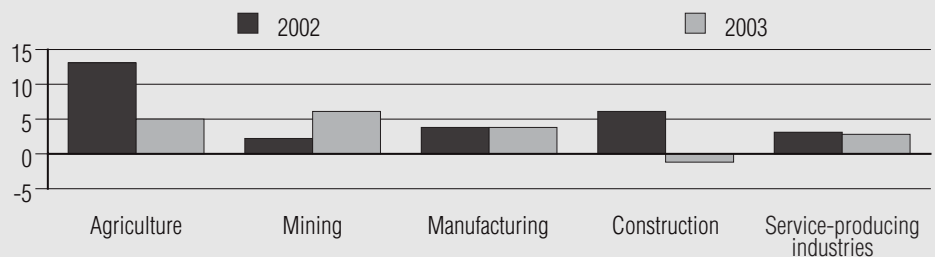
- A stronger Canadian dollar dampens export growth, negatively affecting the province's bottom line.

#### Medium term

- Employment growth restrained by worsening net interprovincial migration compromises economic outlook.

Source: The Conference Board of Canada.

Industry Outlook  
(percentage change, 1997 \$)



Sources: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: Manitoba

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	36,408 3.6	36,641 0.6	36,947 0.8	37,430 1.3	37,650 0.6	38,052 1.1	38,456 1.1	38,888 1.1	39,289 1.0	39,904 1.6	40,372 1.2	40,879 1.3	36,856 3.7	38,262 3.8	40,111 4.8
<b>GDP at basic prices</b> (current \$)	33,624 3.5	33,795 0.5	34,006 0.6	34,461 1.3	34,651 0.6	35,026 1.1	35,400 1.1	35,804 1.1	36,174 1.0	36,755 1.6	37,190 1.2	37,662 1.3	33,972 3.0	35,220 3.7	36,945 4.9
<b>GDP at basic prices</b> (constant \$ 1997)	30,862 0.4	31,460 1.9	31,854 1.3	32,061 0.6	32,136 0.2	32,333 0.6	32,618 0.9	32,905 0.9	33,195 0.9	33,417 0.7	33,626 0.6	33,815 0.6	31,559 3.7	32,498 3.0	33,513 3.1
<b>Consumer price index</b> (1992=1.0)	1.209 0.2	1.231 1.8	1.242 0.9	1.248 0.5	1.255 0.5	1.261 0.5	1.268 0.5	1.274 0.5	1.281 0.5	1.289 0.6	1.294 0.4	1.300 0.4	1.233 1.7	1.264 2.6	1.291 2.1
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.090 3.1	1.074 -1.4	1.068 -0.6	1.075 0.7	1.078 0.3	1.083 0.5	1.085 0.2	1.088 0.3	1.090 0.1	1.100 0.9	1.106 0.6	1.114 0.7	1.077 -0.7	1.084 0.7	1.102 1.7
<b>Average weekly wages</b> (level)	605 0.6	606 0.3	612 0.9	616 0.8	620 0.6	624 0.6	628 0.6	632 0.7	636 0.7	641 0.7	645 0.7	650 0.8	610 2.1	626 2.7	643 2.7
<b>Personal income</b> (current \$)	30,892 1.5	30,971 0.3	31,123 0.5	31,418 1.0	31,624 0.7	31,909 0.9	32,242 1.0	32,584 1.1	32,861 0.9	33,183 1.0	33,540 1.1	33,900 1.1	31,101 3.5	32,090 3.2	33,371 4.0
<b>Personal disposable income</b> (current \$)	24,288 1.8	24,493 0.8	24,592 0.4	24,803 0.9	24,940 0.6	25,139 0.8	25,392 1.0	25,648 1.0	25,951 1.2	26,225 1.1	26,492 1.0	26,760 1.0	24,544 5.0	25,280 3.0	26,357 4.3
<b>Personal savings rate</b>	6.5	5.4	5.3	5.3	5.2	4.8	4.8	4.7	5.0	4.9	4.7	4.5	5.6	4.9	4.8
<b>Population of labour force age</b> (000s)	864 0	864 0.1	865 0.1	866 0.2	869 0.3	871 0.2	873 0.2	874 0.1	876 0.3	878 0.3	880 0.2	883 0.3	865 0.3	872 0.8	879 0.9
<b>Labour force</b> (000s)	596 0.6	596 -0.1	597 0.2	598 0.1	598 0.1	598 0	600 0.2	601 0.3	603 0.3	606 0.4	607 0.2	609 0.4	597 1.6	599 0.5	606 1.1
<b>Employment</b> (000s)	565 0.1	565 0	568 0.5	569 0.3	571 0.2	572 0.3	575 0.5	577 0.5	579 0.3	581 0.3	584 0.5	586 0.4	567 1.6	574 1.3	582 1.5
<b>Unemployment rate</b>	5.3	5.2	5.0	4.7	4.6	4.4	4.2	4.0	4.1	4.1	3.8	3.8	5.1	4.3	3.9
<b>Retail sales</b> (current \$)	10,466 2.5	10,713 2.4	10,729 0.2	10,832 1.0	10,902 0.6	11,024 1.1	11,133 1.0	11,248 1.0	11,338 0.8	11,470 1.2	11,607 1.2	11,752 1.2	10,685 7.5	11,077 3.7	11,542 4.2
<b>Housing starts</b> (units)	3,400 20.1	3,600 5.9	4,233 17.6	3,200 -24.4	3,144 -1.8	3,103 -1.3	3,066 -1.2	3,032 -1.1	3,000 -1.0	2,971 -1.0	2,946 -0.9	2,923 -0.8	3,608 21.8	3,086 -14.5	2,960 -4.1

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.

## Saskatchewan

- Employment growth to match labour force growth in 2002 and exceed it in 2003.
- New housing units on track for the best performance since 1996.

### Real GDP

Year	Growth	Ranking
2002	1.6	#10

Year	Growth	Ranking
2003	4.2	#2

### Credit Quality

**A+**  
Standard & Poor's

### Retail Sales

Year	Growth	Ranking
2002	6.9	#4

Year	Growth	Ranking
2003	5.5	#1

### Government & Background Information

Premier	Lorne Calvert
Next election	2004
Population (July 2002)	1,013,000
Government balance (2002–03 updated Q1)	\$0.1 million

Source: The Conference Board of Canada.

## BACK-TO-BACK DROUGHTS

David Madani

After facing drought conditions last year, the Saskatchewan economy has been struck again this year. Record low precipitation rates, grasshopper infestations and late rain have had a devastating impact on the Saskatchewan agriculture sector, both on crop production and livestock. And the shock to the agriculture sector has reverberated through secondary industries that rely on farmers to purchase farm supplies and fertilizer. As a result, real gross domestic product (GDP) is projected to grow by only 1.6 per cent this year, with a rebound of 4.2 per cent expected next year—assuming a normal crop.

Compounding the dismal outlook for agriculture this year are a mining sector thwarted by weak global demand and a sluggish U.S. economic recovery. However, a rebound in mining is expected next year, with growth of 4.4 per cent, in contrast to a decrease of 1.1 per cent this year. A normal crop year will help agriculture rebound strongly next year, but there is significant downside risk: there is no way to know exactly what permanent effect two consecutive droughts might have on the productive capacity of the agriculture sector. The construction industry is expected to cool down somewhat in 2003 as the result of a significant weakening in housing demand

and non-residential investment. Overall, the goods-producing industries will grow by 6.9 per cent next year, compared with a meagre 0.7 per cent this year.

The service-producing industries will improve by 2.6 per cent in 2003, after 2.1 per cent growth this year. With a rebound in the agriculture and mining sectors, strong growth is anticipated in wholesale and retail trade, and in the transportation, storage and communications industries. A recovery in the labour market next year, combined with further provincial income tax cuts, will bolster consumer demand by increasing disposable incomes over the near term. As a result, retail sales are projected to increase by a healthy 5.5 per cent next year.

**Non-residential investment is expected to grow by 17.6 per cent this year.**

### FARMERS ENDURE CONSECUTIVE DROUGHTS

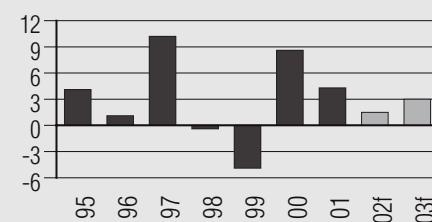
After enduring drought conditions last year, the Saskatchewan agriculture sector has again been struck again by a record-breaking drought this year. Early in the growing season, many farmers were waiting for precipitation before making last-minute planting decisions. In addition, low commodity prices and the bearish influence of the U.S. Farm Bill contributed to the difficult decision of which crops to plant. In the end, farmers opted to increase seeding of oats, barley and canola, but cut back plantings of lentils, chickpeas and red spring wheat. Although some rain improved growing conditions early in the season, much more was needed to compensate for

### Economic Indicators (percentage change)

	2001	2002	2003
Real GDP (basic prices)	-1.8	1.6	4.2
Consumer price index	3.1	2.7	2.4
Personal disposable income	2.5	4.6	4.9
Employment	-2.6	1.5	2.2
Unemployment rate	5.8	5.7	5.0
Retail sales	3.2	6.9	5.5
Average weekly wages	1.9	1.5	3.3
Population	-0.5	-0.5	-0.1

Source: The Conference Board of Canada.

### Mineral Fuel Mining Outlook Improves (percentage change, 1997 \$)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

poor soil moisture reserves. A number of factors late in the growing season, including rain and freezing temperatures, delayed harvest and downgraded quality. As a result, the harvested-to-seeded ratios of many crops are lower than in 2001.

The drought across much of Saskatchewan resulted in feed shortages for livestock, as well as herd dispersal: the provincial herd count shrank by roughly 60,000 animals between July 2001 and July 2002. To maintain their livestock, many farmers were forced to find alternate feeds and revise feeding practices. To this end, the generous Hay West Lottery program organized by the Saskatchewan Cattle Feeders Association helped preserve the nucleus of the province's livestock.

The Saskatchewan government will offer financial assistance to those directly affected by the drought. It will provide as much as \$70 million for livestock producers—\$20 million in direct assistance and up to \$50 million in drought-assistance loans—plus as much as \$150 million in crop insurance advance payments. Output in the agriculture sector is expected to decrease by a further 4.3 per cent this year and to rebound strongly next year. However, there is significant downside risk because there is no way of knowing exactly how the productive capacity of the agriculture sector might have been

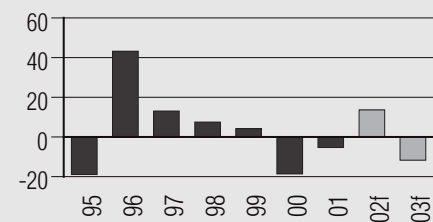
suppressed by the effects of two consecutive droughts. Prairie farmers will be praying for plenty of snow this winter to help restore soil moisture reserves.

### MINING LOOKS UP

Saskatchewan's mining sector continues to feel the pinch of low commodity prices. While sky-high gas prices allowed the number of natural gas wells to hit record numbers last year, the Petroleum Services Association of Canada notes that lower prices have reduced drilling activity for both natural gas and oil this year. Drilling activity is predicted to remain relatively stable, with 2,650 wells drilled this year, compared to 3,089 last year. With crude oil and gas prices forecast to increase next year, real GDP for mining services is expected to rebound by 12.1 per cent next year from a decline of 25.2 per cent this year. Output in the mineral fuel sector is expected to improve by 3 per cent next year.

Nowhere is the sluggish global economic recovery more apparent than in metal prices. While major near-term price gains are unlikely, prices should move higher toward the middle of next year as demand strengthens amid a global economic recovery. As a result, metal mining is expected to grow by 7 per cent next year, following a decline of 24.7 per cent this year.

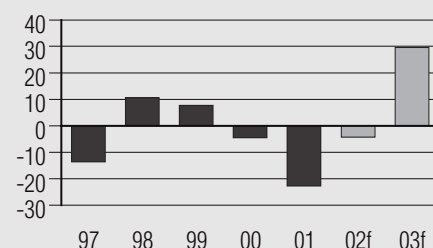
**Housing Starts Expected to Slow**  
(percentage change, 1997 \$)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

**Employment Outlook Improves**  
(percentage change)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

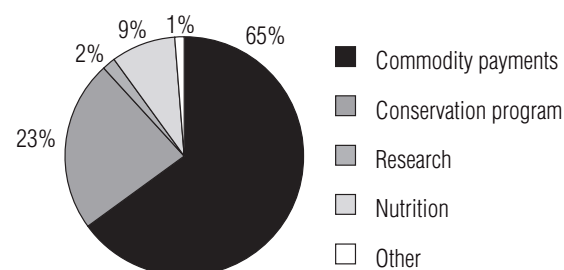
Non-metal mining output in the province will depend mainly on the outlook for the potash industry. Production of potash, one of the three main components in fertilizer, is very sensitive to global demand for and supply of fertilizer.

### *U.S. Farm Bill—Back to the Future*

As a major agricultural producer with a relatively small population, Canada exports a large amount of farm produce. Sales this year are expected to be roughly \$32 billion. The success of the agri-food sector depends in large part on international market conditions. During the summer, conditions for Canadian farmers deteriorated further with more U.S. farm subsidies. The new U.S. farm bill adds another \$73.5 billion in new subsidies, spread out over the next ten years. It extends major farm income support through 2007 and offers substantial land conservation, credit and marketing assistance to U.S. farmers, representing a whopping 70 per cent increase in U.S. agricultural spending. Not only will the new bill affect traditional crops like wheat, corn and soybeans; it also increases price supports for specialty crops, such as dry peas, lentils and chickpeas. Many prairie farmers who have successfully diversified into peas, beans, lentils and other specialty crops will now face greater competition.

Preliminary analysis of the new farm bill indicates that U.S. farm production of the nine major crops will increase by an additional 2 per cent in 2003 and 1.5 per cent in 2004. The commodity program provisions of the new farm bill are expected to increase U.S. net farm income by an average of \$3.8 billion per year, and conservation programs will contribute an additional \$700 million per year. Specialty crop producers are expected to receive at least \$12 million per year over ten years. The analysis also shows that Iowa will continue to receive the greatest amount of farm program benefits, followed by Illinois, Minnesota, Texas and Nebraska. Economic factors in countries such as China, Mexico and Argentina make it difficult to know whether the expected increase in U.S. production will lead to lower world crop prices.

**Preliminary Estimates of U.S. Farm Subsidy Shares**



Source: The Food and Agricultural Policy Research Institute.



Production of potash should continue to grow by 5.4 per cent next year as excess grain capacity dwindles worldwide. Total mining output is expected to increase by 4.4 per cent next year and 3.1 per cent in 2004.

### HOUSING STARTS EXPECTED TO SLOW

It has been a fabulous year for the housing industry. More than 2,700 new units should be built this year, the most since 1996. Construction is expected to increase this year for both single and multi-family dwellings, the former by 14.5 per cent to 1,862 new houses and the latter by 11.7 per cent to 842 new apartment units.

However, even with steady employment growth and an improved economic outlook next year, the housing industry will begin to cool down as rising mortgage rates put downward pressure on housing demand. As a result, total housing starts are expected to decline by 11.7 per cent to 2,389 new units in 2003.

Private investment spending is expected to boost non-residential construction this year. In Lloydminster, Husky Oil continues its \$500 million expansion of the heavy oil upgrader, which is expected to increase production to 120,000 barrels per day. Completion of the \$255 million expansion of the Consumers' Co-operative Refinery in Regina is still on track for completion by the end of this year. The project will increase the refinery's output capacity by about 40 per cent. The \$227 million Cory Cogeneration Station being constructed by ATCO Power of Alberta and SaskPower International is expected to be completed late this year and primed to produce 228 megawatts of electricity. There will also be a number of smaller food-processing investment projects during the forecast period.

In addition, there will be some public investment in non-residential projects over the near term. The government is investing \$300 million this year as part of a three-year \$900 million investment in infrastructure for the reconstruction of

over 700 kilometres of highways. The \$174 million Canadian light source synchrotron at the University of Saskatchewan will be completed by 2003, and the university will spend another \$75 million to repair and replace other campus buildings by the end of this year. A new residence and sports complex is being planned for the University of Regina, at a combined cost of \$55 million.

Total non-residential investment spending is expected to grow by 17.6 per cent this year but to decrease by 9.2 per cent next year as the construction phase ends for many projects. However, the

\$650 million newsprint manufacturing facility proposed

by Alberta Newsprint

Company poses considerable upside risk.

The feasibility study is due by the end of this

year, and construction could begin early in 2003.

As a result of strong investment spending this year—the strongest among all the provinces—overall construction is expected to increase by 9.2 per cent this year but to decrease by 10.3 per cent next year.

### Rising mortgage rates next year are expected to put downward pressure on housing demand.

### STEADY EMPLOYMENT GROWTH

Output in the service-producing industries will improve by 2.1 per cent this year and experience stronger growth of 2.6 per cent next year. Thanks to stronger employment numbers and a rebound in the agriculture and mining sectors, leading to strong performances in the wholesale and retail trade, and the transportation, storage and communications industries. The wholesale and retail trade sector will grow by 3.6 per

cent this year and 4 per cent next year. Transportation, storage and communications will grow by 2.1 per cent this year and by 3.9 per cent next year. Employment growth in the services sector—including retail and wholesale trade, and finance, insurance and real estate—is expected to rise by 3.7 per cent this year and 3 per cent next year. Total employment growth will match growth in the labour force this year and will exceed it next year. As a result, downward pressure on unemployment is expected until at least next year. Personal disposable income growth will accelerate to 4.6 per cent this year, then to 4.9 per cent next year, thanks to stronger employment numbers combined with further provincial tax cuts. As a result, retail sales growth will accelerate to 6.9 per cent this year and 5.5 per cent next year.

#### Forecast Risks

**Short term**

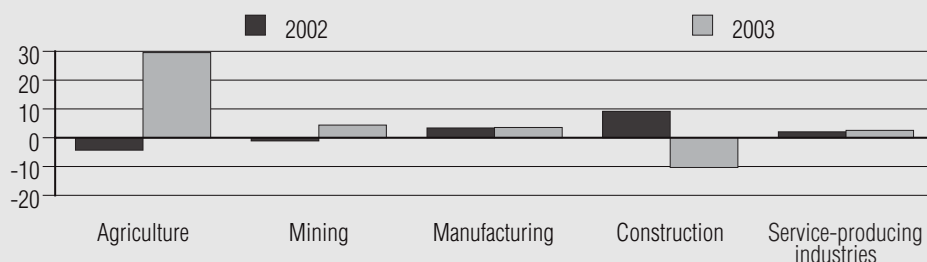
- A protracted U.S. economic slowdown could hinder mining and exploration activity.

**Medium term**

- Major newsprint manufacturing company goes ahead in 2003, raising employment, investment and total GDP.

Source: The Conference Board of Canada.

Industry Outlook  
(percentage change, 1997 \$)



Sources: Statistics Canada; The Conference Board of Canada.



# Key Economic Indicators: Saskatchewan

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	32,380 0	33,888 4.7	34,329 1.3	35,091 2.2	35,494 1.1	35,999 1.4	36,474 1.3	36,926 1.2	37,257 0.9	37,939 1.8	38,371 1.1	38,879 1.3	33,922 1.5	36,223 6.8	38,111 5.2
<b>GDP at basic prices</b> (current \$)	30,380 -0.3	31,843 4.8	32,216 1.2	32,959 2.3	33,339 1.2	33,825 1.5	34,279 1.3	34,710 1.3	35,019 0.9	35,677 1.9	36,085 1.1	36,568 1.3	31,850 0.9	34,038 6.9	35,837 5.3
<b>GDP at basic prices</b> (constant \$ 1997)	28,434 0	28,690 0.9	29,074 1.3	29,318 0.8	29,685 1.3	29,935 0.8	30,225 1.0	30,496 0.9	30,688 0.6	30,883 0.6	31,065 0.6	31,238 0.6	28,879 1.6	30,085 4.2	30,968 2.9
<b>Consumer price index</b> (1992=1.0)	1.212 0.4	1.237 2.1	1.242 0.4	1.249 0.6	1.254 0.4	1.261 0.5	1.268 0.5	1.274 0.5	1.281 0.5	1.289 0.6	1.294 0.4	1.300 0.4	1.235 2.7	1.264 2.4	1.291 2.1
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.068 -0.3	1.110 3.9	1.108 -0.2	1.124 1.5	1.123 -0.1	1.130 0.6	1.134 0.4	1.138 0.4	1.141 0.3	1.155 1.2	1.162 0.5	1.171 0.8	1.103 -0.7	1.131 2.6	1.157 2.3
<b>Average weekly wages</b> (level)	597 0.4	597 0	608 1.8	613 0.8	617 0.7	621 0.7	625 0.7	630 0.7	635 0.7	640 0.8	645 0.8	650 0.8	604 1.5	623 3.3	642 3.0
<b>Personal income</b> (current \$)	24,650 0.9	24,626 -0.1	25,021 1.6	25,259 0.9	25,554 1.2	25,853 1.2	26,218 1.4	26,560 1.3	26,853 1.1	27,141 1.1	27,440 1.1	27,734 1.1	24,889 3.0	26,046 4.6	27,292 4.8
<b>Personal disposable income</b> (current \$)	19,679 1.2	19,764 0.4	20,063 1.5	20,240 0.9	20,527 1.4	20,750 1.1	21,037 1.4	21,303 1.3	21,606 1.4	21,855 1.2	22,085 1.1	22,309 1.0	19,937 4.6	20,904 4.9	21,964 5.1
<b>Personal savings rate</b>	0.5	-0.7	-0.1	-0.1	-0.2	-0.5	-0.6	-0.7	-0.3	-0.4	-0.6	-0.9	-0.1	-0.5	-0.6
<b>Population of labour force age</b> (000s)	760 0	760 -0.1	759 -0.1	760 0.1	762 0.3	763 0.1	763 0	763 0.1	765 0.3	767 0.3	769 0.2	771 0.3	760 -0.3	763 0.4	768 0.7
<b>Labour force</b> (000s)	503 1.2	507 0.7	510 0.7	514 0.6	514 0.2	515 0.1	516 0.1	517 0.4	519 0.4	521 0.3	522 0.3	524 0.3	508 1.4	516 1.4	522 1.2
<b>Employment</b> (000s)	474 1.5	478 0.8	483 1.0	483 0.1	486 0.7	488 0.3	491 0.7	494 0.5	495 0.2	496 0.2	498 0.3	500 0.3	479 1.5	490 2.2	497 1.5
<b>Unemployment rate</b>	5.8	5.7	5.4	5.9	5.5	5.3	4.7	4.5	4.7	4.8	4.7	4.7	5.7	5.0	4.7
<b>Retail sales</b> (current \$)	8,795 2.3	8,942 1.7	9,039 1.1	9,108 0.8	9,261 1.7	9,396 1.5	9,532 1.4	9,659 1.3	9,763 1.1	9,888 1.3	10,010 1.2	10,135 1.2	8,971 6.9	9,462 5.5	9,949 5.1
<b>Housing starts</b> (units)	2,300 -22.9	2,400 4.3	3,533 47.2	2,585 -26.8	2,414 -6.6	2,396 -0.7	2,380 -0.7	2,365 -0.6	2,351 -0.6	2,339 -0.5	2,329 -0.4	2,320 -0.4	2,704 13.6	2,389 -11.7	2,335 -2.3

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.

## Alberta

- Total real GDP to bounce back in 2003 as the mining sector outlook improves.
- Positive interprovincial migration to keep employment gains strong.

### Real GDP

Year	Growth	Ranking
2002	2.0	#9

Year	Growth	Ranking
2003	5.0	#1

### Credit Quality

**AAA**  
Standard & Poor's

### Retail Sales

Year	Growth	Ranking
2002	7.9	#1

Year	Growth	Ranking
2003	4.6	#3

### Government & Background Information

Premier	Ralph Klein
Next election	2005
Population (2001)	3,056,404
Government balance (2002–03)	\$531 million
Source: The Conference Board of Canada.	

## MINING OUTPUT WEIGHS HEAVILY ON ALBERTA'S BOTTOM LINE

Monique Brugger

The Alberta economy will suffer from a decrease in total mining output this year, with most of this weakness occurring in the mineral fuels and mining services industries. Total output in the mining sector will decrease by 2.4 per cent, limiting real gross domestic product (GDP) output growth to 2 per cent. Total real GDP output will rebound smartly in 2003 and grow by 5 per cent, thanks in large part to a resurgence in mineral fuels output.

The West Texas Intermediate (WTI) oil price has closely reflected the geopolitical uncertainty surrounding the U.S. stance on possible military action against Iraq since the previous *Provincial Outlook*. The WTI has fluctuated between U.S. \$26 and U.S. \$30, and the Petroleum Services Association of Canada (PSAC) has accordingly revised its oil and gas well count forecast upward for the second time this year. However, a drop in drilling activity on a seasonally adjusted basis did occur over the summer months. Given stronger oil prices, drilling should pick up in the last quarter of the year. In addition, the NYMEX natural gas price closely reflected the oil price pattern over the same time period and is currently hovering at around U.S. \$4 per million British thermal units (mmbtu).

### Drilling is expected to improve markedly for the remainder of this year.

The agriculture and construction sectors will also constrain growth in real output in the goods-producing industries this year, but both are expected to rebound sharply in 2003. Real output in the service-producing industries, however, continues to remain resilient. Output in all service-producing industries will be propelled by strong growth in personal disposable income in addition to good gains in employment. Furthermore, retail sales will be spurred by strong disposable income growth combined with spectacular housing starts.

### THE OIL SITUATION

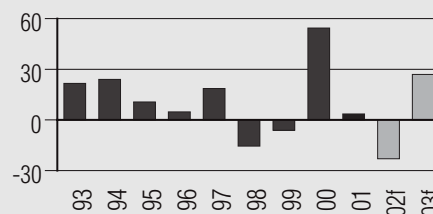
The anticipated stabilizing of energy prices over the summer months did not materialize. In fact, average monthly prices for crude oil have risen continuously since June. Although there was a brief period in early August when it appeared that crude oil prices were finally on their way down, geopolitical uncertainty and falling inventories in the United States quickly pushed prices to around U.S. \$30 per barrel by mid month. The Conference Board expects the WTI price of crude oil to settle in at around U.S. \$28 per barrel over the next few months. In the previous *Provincial Outlook*, intensified conflict between Israel and the Palestinian Authority was seen as the largest destabilizer of energy prices, adding a risk premium of about U.S. \$1 to the price of crude oil. Currently, the U.S. threat of war on Iraq is contributing to a war premium that some analysts estimate is anywhere between U.S. \$3 and U.S. \$4 per barrel. Nevertheless, the Organization of Petroleum-Exporting Countries (OPEC) finds that

### Economic Indicators (percentage change)

	2001	2002	2003
Real GDP (basic prices)	3.0	2.0	5.0
Consumer price index	2.3	2.8	2.7
Personal disposable income	8.3	6.1	4.6
Employment	2.8	2.3	2.5
Unemployment rate	4.6	5.3	4.6
Retail sales	9.1	7.9	4.6
Average weekly wages	2.7	2.5	3.5
Population	1.7	1.7	1.5

Source: The Conference Board of Canada.

### Drilling to Rebound in 2003 (mining services, 1997 \$, percentage change)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

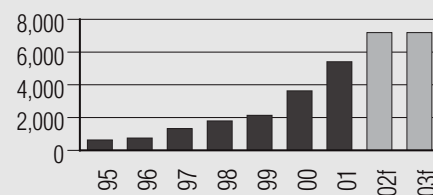
current demand and supply conditions do not warrant an increase in oil production quotas over those set in January of this year. Members of the cartel who met in Japan on September 19 decided not to increase production as the winter heating season approaches. Some OPEC nations are, however, cheating on their production quotas, easing some supply constraints. Moreover, Russia is considering investing in a U.S. \$1.5 billion port project targeted at raising oil exports to the United States and taking market share from OPEC. High oil prices are helping Russia rebuild its oil industry, which it hopes will boost exports by one third and help meet 7 per cent of future U.S. demand.

The International Energy Agency expects global oil demand to pick up in both the third and fourth quarters of this year. However, more significant increases in demand will be delayed until next year, as full recovery of the U.S. economy is not expected before the second half of 2003. On an annual basis, global oil demand will increase by only 0.8 per cent, or 0.6 million barrels per day (mmbd) this year. Most of this increased demand will be from China. Increases in oil production from non-OPEC countries will increase by almost 1 mmbd—from Canada (0.2 mmbd), Mexico (0.1 mmbd), and the former Soviet Union (FSU, 0.4 mmbd). This increase in production, combined with very low demand growth, should curtail oil price increases. Unfortunately, the uncertainty

regarding the stability of oil supplies from the Middle East, given the threat of war with Iraq, and low OPEC output quotas are doing much to keep the price of oil artificially high. The WTI crude oil price is, on average, expected to fall by only 0.4 per cent this year, to U.S. \$25.82 per barrel. Considerable risk clouds this price outlook. For example, if the United States invades Iraq, Middle Eastern oil supplies could be destabilized and prices could easily ratchet upwards.

Under the assumption of no Iraq war, WTI oil prices will fall back from current levels to average U.S. \$26.87 barrel in 2003. A full economic recovery in the United States will occur only in the second half of 2003. Increasing industrial production during that time will raise energy usage, helping to sustain the price of crude oil. Total worldwide oil demand in 2003 will increase by 1.1 mmbd, half of this from the United States. According to the International Energy Agency, worldwide oil production will increase by 2.3 mmbd, as output from OPEC countries (1.8 mmbd) and non-OPEC sources—the FSU (0.3 mmbd), Canada (0.1 mmbd) and Mexico (0.1 mmbd)—will increase substantially. The excess supply currently forecast for next year introduces a significant degree of downside risk to the oil price outlook.

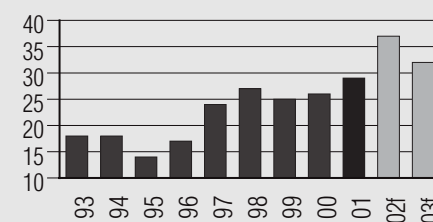
**Oil Sands Investment in Mining and Upgrader Projects**  
(proposed and ongoing developments, \$ millions)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

**Demand to Remain High**  
(housing starts, 000 units)



f = forecast

Sources: Canada Mortgage and Housing Corporation; The Conference Board of Canada.

## NATURAL GAS PRICES INFLUENCED BY OIL MARKETS

The price of natural gas has closely reflected the pattern of oil prices over the past few months. After reaching an average high of U.S. \$3.35 per million British thermal

## SPECIAL ISSUE

### *The Debate Surrounding the Kyoto Protocol*

Debate surrounding the Kyoto Protocol has erupted in the last few months. Canada signed the agreement in April 1998, and now it is up to the Prime Minister to seek Cabinet approval and subsequent ratification. Canada will then be bound by its terms as a matter of international law. The federal government does not require provincial consent on the matter, as the Constitution reserves the conduct of international relations to the federal government.

The basic Kyoto Protocol obligation requires ratifying countries to reduce greenhouse gas emissions to 6 per cent below 1990 levels by 2012. The agreement, however, does not describe how this result is to be achieved or include an enforcement mechanism. In fact, individual countries can set their own measurable goals so that they can reduce greenhouse gas emissions sufficiently to meet their target. For Alberta and other provinces, this requires energy companies to reduce emissions and obliges all citizens to reduce energy consumption on a wider scale. Thus far, the federal government has not supplied any specific details as to how it plans to achieve the Kyoto targets. However, any plan to meet Kyoto requirements of necessity requires reduced usage of carbon fuels (ignoring the issue of tradeable pollution credits, most easily achieved by raising the price of such fuels). Consumers would then seek out alternative, greener forms of energy.

Alberta's energy industry will naturally be the sector most adversely affected by the Kyoto Protocol. However, the provincial government has set out a made-in-Alberta action plan that would allow more time to reach the agreed-upon targets. The debate is likely to heat up as the deadline for ratification draws closer.



# ERRATUM—PROVINCIAL OUTLOOK, AUTUMN 2002

December 9, 2002

An early, draft version of the Alberta Special Issue (page 46), “The Debate Surrounding the Kyoto Protocol,” was printed inadvertently. The correct text, “The Kyoto Protocol Debate” is below.

## Original Text:

### SPECIAL ISSUE

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## Replacement Text:

### SPECIAL ISSUE

#### *The Kyoto Protocol Debate (December 9, 2002)*

A great deal of debate has erupted over the Kyoto Protocol in the past few month. Since Canada signed the agreement in April 1998, it has been up to the prime minister to seek Cabinet approval and subsequent ratification. Once the Protocol is ratified—on the Government timetable by the end of 2002—Canada will be bound by its provisions as a matter of international law. Provincial consent is not required on the matter, as the Constitution gives the federal government full responsibility for international relations.

The Kyoto Protocol does not specify how to reduce greenhouse gas emissions and does not describe any mechanisms for enforcement. It is up to each state to set its own target for reducing greenhouse gas emissions. Under the agreement, Canada would be obliged to lower greenhouse gas emissions to a level 6 per cent below 1990 levels by 2012.

A set of four policy instruments designed to help the country meet its Kyoto targets has been developed in conjunction with consultations and studies by the National Climate Change Process.

1. A set of target measures consisting of regulations, programs and incentives, which, used together, will encourage emission reductions through energy efficiency, cleaner fuels and alternative transportation methods.
2. A domestic emissions trading program.
3. Domestic carbon “sinks” in the agriculture and forest sectors, capable of absorbing carbon dioxide in the atmosphere.
4. An international carbon trading system.

These policy instruments were proposed as part of the federal Climate Change Draft Plan, released on October 24.

There are many risks for Canada if the Kyoto Protocol is ratified, not the least of which is the possibility that the targets might not be met. In addition, the still unknown costs and benefits associated with the implementation of the targets could suppress investment in the energy sector, especially in the oil sands and in the electricity-generating industries that depend on fossil fuels. In addition, if energy costs increase more than expected, some investment could be diverted from Canada to other countries.

If Canada proceeds with plans to meet its Kyoto targets, the country will have to develop a plan for managing the economic risks. Implementation of the Protocol will also require a national long-term climate-change strategy that takes into account Canada's own best interests as well as the activities of other major emission-cutting nations.

units (mmbtu) in April, the NYMEX spot price contracted to an average low of U.S. \$2.91 in July but quickly regained strength in August and returned to April levels in September. A number of factors account for the rise in natural gas prices. First, unusually hot summer weather in the United States and Canada ignited demand for electricity as cooling requirements soared. Thus, some natural gas was diverted from storage to gas-fired electricity-generating stations. Storage levels will need to be replenished between the end of the cooling season and the onset of the heating season, putting upward pressure on prices. Even so, natural gas in underground storage in the United States remains above the five-year average. However, the growing uncertainty surrounding the U.S. military action against Iraq is creating unease in the marketplace, causing natural gas prices to remain high. Natural gas prices will increase in the medium term, when the economic recovery in the United States gets into full swing in the latter half of 2003, pushing industrial demand for energy higher. Consequently, the raw material price of natural gas will increase by 7.6 per cent in 2003, while the export price of natural gas will jump by 12.3 per cent. At the same time, real exports of natural gas are expected to rise by 3 per cent.

### DRILLING TO PICK UP MOMENTUM IN 2003

Drilling took a beating in the second quarter of 2002, but it is expected to improve markedly in the remainder of this year as oil and natural gas prices have picked up substantially since last winter. In fact, PSAC has raised its forecast of drilling activity twice this year and now expects 14,700 oil and gas wells to be drilled in 2002, an improvement of 700 wells over the April forecast. This is a 19 per cent drop from 2001, but still well over the 10-year average. Growth in mining services output in the province next year will make up the losses in output expected in 2002. Oil and gas prices this fall (when plans for the crucial winter drilling season are made) are much higher than they were in the fall of 2001, just after September 11. As a result, mining services output will increase by 26.9 per cent in 2003, following a drop of 23 per cent this year. The drop in drilling activity will mainly affect the conventional oil patch, while oil sands production will remain healthy. Mineral

fuels output is expected to grow by a mere 1.6 per cent this year but to pick up smartly in 2003, when it will grow by 6.4 per cent.

### DOMESTIC DEMAND OUTLOOK

#### MAJOR PROJECTS BOOST ENERGY INVESTMENT NEXT YEAR

In large part because of a drop in drilling activity, energy-sector capital expenditures will be sharply reduced this year in Alberta. Non-residential capital expenditures in the energy sector will drop by 8.4 per cent before rebounding sharply by 16.7 per cent in 2003, as development ramps up for new and existing projects. Among the new and continuing projects are Suncor's \$1 billion in-situ bitumen recovery project, Imperial Oil's Cold Lake heavy oil plant expansion, and Phase I of True North Energy's \$3.3 billion Fort Hills oil sands extraction plant. In addition, Shell is applying to build a \$2 billion mine in the Jackpine area. Energy companies will spend about \$7.2 billion this year and next on oil sands development in the province.

No major business projects outside the energy sector are being planned for the province in 2002. Public spending on infrastructure projects, however, will grow by 4.7 per cent this year as high energy prices will result in larger government royalties than expected during the first half of the year. Spending in the sector will moderate in 2003. Overall, total public and private non-residential construction expenditures will drop by 6.6 per cent in 2002 before posting a 12.7 per cent gain in 2003.

#### EMPLOYMENT GAINS TO REMAIN STRONG

Employment gains in the province will hold steady over the forecast period,

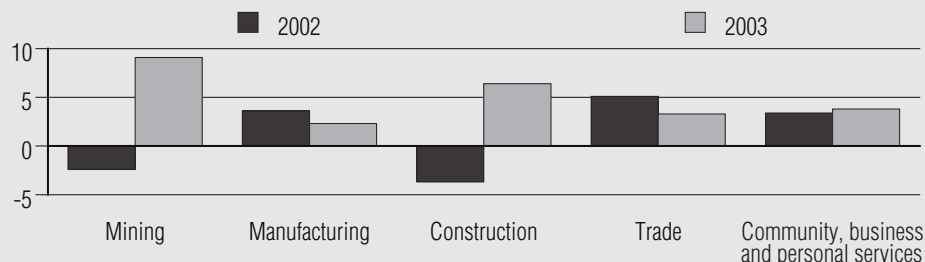
despite the weak drilling situation. About 22,600 positions have been lost in the forestry, fishing, and oil and gas sectors since the beginning of the year. However, growth in the manufacturing, construction, and public administration sectors will be solid, as will job gains in the services sector. It is anticipated that labour demand in the oil and gas sector will pick up in the fourth quarter of this year as the busy drilling season gets under way in November. Employment in the services sector will benefit from strong retail sales and housing starts brought about by heavy interprovincial migration and significant gains in personal disposable income. Total employment will rise by 2.3 per cent in 2002 (37,500 new jobs) and a further 2.5 per cent in 2003 (42,000 new jobs). However, labour force gains will surpass employment growth, forcing the unemployment rate up by 0.7 percentage points to 5.3 per cent in 2002. In 2003, better job growth will bring the unemployment rate back down to 4.6 per cent.

#### Forecast Risks

- Short term**
  - If energy prices rise even further, energy investment and drilling activity will surge.
- Medium term**
  - The province's bright economic outlook will continue to attract individuals from other provinces, boosting domestic demand further.

Source: The Conference Board of Canada.

Industry Outlook  
(percentage change, 1997 \$)



Sources: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: Alberta

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	144,443 -0.6	157,080 8.7	158,462 0.9	161,740 2.1	162,535 0.5	165,034 1.5	167,209 1.3	169,585 1.4	171,455 1.1	175,211 2.2	177,167 1.1	179,918 1.6	155,431 2.3	166,090 6.9	175,938 5.9
<b>GDP at basic prices</b> (current \$)	141,427 -0.7	153,996 8.9	155,275 0.8	158,524 2.1	159,285 0.5	161,754 1.6	163,898 1.3	166,243 1.4	168,079 1.1	171,799 2.2	173,719 1.1	176,432 1.6	152,306 2.1	162,795 6.9	172,507 6.0
<b>GDP at basic prices</b> (constant \$ 1997)	118,316 1.3	118,727 0.3	121,416 2.3	122,906 1.2	124,304 1.1	125,615 1.1	126,960 1.1	128,435 1.2	129,850 1.1	131,030 0.9	132,168 0.9	133,248 0.8	120,341 2.0	126,329 5.0	131,574 4.2
<b>Consumer price index</b> (1992=1.0)	1.206 1.6	1.235 2.4	1.244 0.7	1.251 0.6	1.256 0.4	1.263 0.6	1.271 0.6	1.278 0.6	1.288 0.8	1.298 0.7	1.305 0.6	1.312 0.6	1.234 2.8	1.267 2.7	1.301 2.7
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.195 -2.0	1.297 8.5	1.279 -1.4	1.290 0.9	1.281 -0.6	1.288 0.5	1.291 0.3	1.294 0.3	1.294 0	1.311 1.3	1.314 0.2	1.324 0.7	1.265 0	1.289 1.8	1.311 1.7
<b>Average weekly wages</b> (level)	703 0.1	704 0.1	717 1.8	723 0.9	729 0.8	734 0.7	739 0.7	745 0.8	751 0.8	757 0.8	764 0.9	770 0.9	712 2.5	737 3.5	761 3.2
<b>Personal income</b> (current \$)	97,824 1.7	99,271 1.5	99,951 0.7	100,646 0.7	102,010 1.4	103,353 1.3	104,980 1.6	106,502 1.5	107,884 1.3	108,991 1.0	110,081 1.0	111,354 1.2	99,423 5.0	104,211 4.8	109,577 5.1
<b>Personal disposable income</b> (current \$)	75,353 1.5	76,929 2.1	77,362 0.6	77,824 0.6	78,800 1.3	79,769 1.2	80,996 1.5	82,128 1.4	83,515 1.7	84,455 1.1	85,252 0.9	86,188 1.1	76,867 6.1	80,423 4.6	84,852 5.5
<b>Personal savings rate</b>	4.9	5.0	5.0	4.6	4.5	4.1	4.1	4.0	4.3	4.2	4.0	3.8	4.9	4.2	4.1
<b>Population of labour force age</b> (000s)	2,400 0.5	2,414 0.6	2,427 0.5	2,435 0.3	2,450 0.6	2,462 0.5	2,471 0.4	2,479 0.4	2,493 0.5	2,506 0.5	2,518 0.5	2,530 0.5	2,419 2.2	2,465 1.9	2,512 1.9
<b>Labour force</b> (000s)	1,737 0.7	1,755 1.0	1,780 1.5	1,778 -0.2	1,784 0.4	1,788 0.2	1,797 0.5	1,804 0.4	1,818 0.7	1,828 0.6	1,838 0.5	1,846 0.5	1,762 3.0	1,793 1.7	1,832 2.2
<b>Employment</b> (000s)	1,652 0.6	1,657 0.3	1,686 1.8	1,683 -0.2	1,691 0.5	1,701 0.6	1,718 1.0	1,733 0.8	1,738 0.3	1,742 0.2	1,745 0.2	1,751 0.4	1,669 2.3	1,711 2.5	1,744 1.9
<b>Unemployment rate</b>	4.9	5.6	5.3	5.3	5.2	4.9	4.4	4.0	4.4	4.7	5.0	5.1	5.3	4.6	4.8
<b>Retail sales</b> (current \$)	36,767 2.9	37,410 1.7	37,468 0.2	37,738 0.7	38,226 1.3	38,777 1.4	39,336 1.4	39,849 1.3	40,338 1.2	40,771 1.1	41,155 0.9	41,645 1.2	37,346 7.9	39,047 4.6	40,977 4.9
<b>Housing starts</b> (units)	39,900 23.2	38,300 -4.0	34,467 -10.0	34,000 -1.4	33,506 -1.5	32,706 -2.4	32,014 -2.1	31,428 -1.8	30,950 -1.5	30,579 -1.2	30,314 -0.9	30,157 -0.5	36,667 25.7	32,414 -11.6	30,500 -5.9

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.



## British Columbia

- Outlook for housing bright—historically high housing starts expected to continue into 2003.
- Forestry continues to be a drag on the economy—sector rebound not expected until 2004.

### Real GDP

Year	Growth	Ranking
2002	2.7	#8

Year	Growth	Ranking
2003	2.9	#9

### Credit Quality

**AA-**  
Standard & Poor's

### Retail Sales

Year	Growth	Ranking
2002	6.7	#5

Year	Growth	Ranking
2003	4.1	#5

### Government & Background Information

Premier Gordon Campbell

Next election 2006

Population (July 2002) 4.141 million

Government balance (2002–03) –\$4.0 billion

Source: The Conference Board of Canada.

## NOT OUT OF THE WOODS YET

Patrick Codrington

Although there have been bright spots, the rebound in the British Columbia economy has not been as strong as was expected. Projected real gross domestic product (GDP) growth in 2003 has dropped from a ranking of fourth overall in the last *Provincial Outlook* to ninth place this time around. Growth of 2.7 per cent is forecast for this year, and slightly higher growth of 2.9 per cent growth is anticipated in 2003.

The ongoing saga of Canadian softwood exports to the United States continues to be a principal source of weakness in the British Columbia economy. Since the levying of U.S. tariffs at the end of the second quarter, exports south of the border have been down significantly, reducing forestry sector output. A resolution to the dispute is not expected until at least mid 2003, too late to significantly improve the sector's annual growth outlook for next year. Forestry will not witness a full-scale recovery until 2004.

The remaining goods-producing industries have fared much better. A particular bright spot has been housing starts, which are on track for a record of 21,000 units this year. Starts are forecast to decline in future quarters but will remain historically high through 2003. All non-forestry goods-producing sectors are forecast to have

positive growth both this year and next, with the utilities, construction and mining sectors leading the pack.

### British Columbia's employment picture continues to surprise, in spite of heavy forestry job losses.

British Columbia's employment picture continues to surprise in spite of heavy forestry job losses. Job growth since the beginning of the year has been stellar, erasing losses suffered during the recession experienced in 2001. The employment picture for the province is expected to remain solid, with job growth of 1.5 per cent both this year and next.

Strong employment growth will stimulate increases in personal income, which in turn will support consumption. Retail sales are projected to show healthy growth both this year and next. The strength of retail sales should offset some of the weakness in the tourist industry, which is still enduring the aftermath of September 11. The overall service sector is expected to grow by 3.2 per cent this year and by 2.6 per cent in 2003.

### FORESTRY

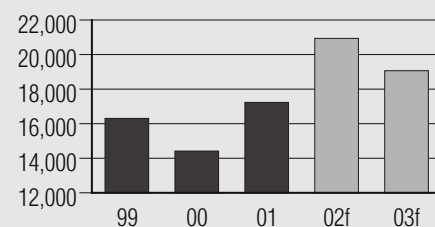
Softwood lumber again took centre stage during the third quarter. Punitive U.S. duties of 27 per cent on softwood were introduced late in the second quarter in response to what the U.S. government deemed to be subsidized logging practices in Canada. Since softwood exports represent approximately 50 per cent of B.C.'s \$20 billion per year export market, and as such are a key driver of the provincial economy, export statistics are being closely monitored to gauge the impact of the U.S. duties.

### Economic Indicators (percentage change)

	2001	2002	2003
Real GDP (basic prices)	0.8	2.7	2.9
Consumer price index	1.7	2.5	1.9
Personal disposable income	3.6	3.9	4.1
Employment	-0.4	1.5	1.5
Unemployment rate	7.7	8.5	8.2
Retail sales	6.0	6.7	4.1
Average weekly wages	0.3	1.1	3.1
Population	0.9	1.0	1.1

Source: The Conference Board of Canada.

### Housing Starts Surge (housing starts, units)



f = forecast

Sources: Statistics Canada; CMHC; The Conference Board of Canada.



Not surprisingly, export statistics in June, the first full month for which the tariff were in place, showed a drop of 12.9 per cent on a month-over-month basis. July exports recaptured a portion of the loss, with a 4 per cent month-over-month increase, but export levels are still well down from a year earlier. Continued strong housing starts in the Canadian market have partially offset the drop in exports to the United States. However, the sector is still expected to shrink by 12.1 per cent this year.

Bilateral talks between the United States and Canada have only recently resumed after breaking down earlier in the year, and talks between the U.S. government and individual provincial governments, including British Columbia, have begun. Nevertheless, statements by U.S. officials indicate that the dispute will not be resolved until at least mid 2003. Demand is expected to rebound after tariffs are lifted. However, until a resolution is achieved, forestry will remain a drag on the B.C. economy as a whole.

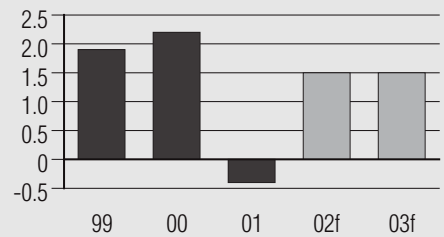
## CONSTRUCTION

Residential construction has taken off everywhere across the country, and British Columbia is no exception. Historically low mortgage rates and the Bank of Canada's reluctance to hike interest rates in the face of the weaker-than-expected U.S. recovery

have been a boon to the British Columbia construction industry. Consumers have been jumping into the market to snap up homes, and the industry has rushed to supply this increased housing demand. Total residential construction, which has shown mid-single-digit increases since the fourth quarter of 2001, jumped 18.4 per cent in the third quarter as the market reached a fever pitch. Starts will retreat gradually as the Bank of Canada hikes rates in the second half of 2003. Starts are expected to shrink by a total of 8.9 per cent next year after surging 21.5 per cent in 2002, but 2003 levels will remain at historical highs. In spite of weakness in non-residential construction this year, overall construction output growth is pegged at 3.4 per cent, based primarily on the strong housing numbers.

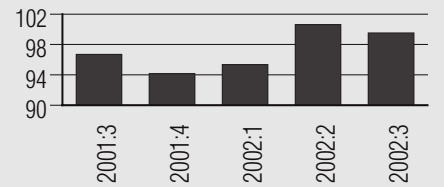
Private and public non-residential investment dropped 2.1 per cent in the first quarter and has been relatively flat since then. A number of new non-residential construction projects are scheduled to begin in 2003, including a half-billion-dollar natural gas line, which is being built to increase the supply of natural gas between the Fraser Valley and Lower Mainland. With the rise in non-residential investment and continued strength of residential construction, the construction industry should grow by an impressive 6.5 per cent next year.

Labour Market Rebounds After 2001 Slump  
(employment, percentage change)



Sources: Statistics Canada; The Conference Board of Canada.

Employment Gains Spark Consumer Confidence Increase  
(Index of Consumer Attitudes, British Columbia, 1991=100)



f = forecast

Sources: Statistics Canada; The Conference Board of Canada.

## OTHER GOODS

Newsprint and pulp prices began to rebound during the third quarter, but excess world production has kept them depressed. Figures for the period January to July show

## SPECIAL ISSUE

### Forestry Production Axed as Dispute Continues

By any standard, 2002 will go down as one of the worst years in British Columbia forestry history. By September, softwood lumber prices had fallen by 32 per cent since reaching their high point in March. This was in addition to the punitive 27 per cent countervailing and anti-dumping duties imposed by the United States on Canadian softwood exports in the second quarter. The lack of economic diversification in many forestry areas further exacerbates the impact of shrinking forestry production on these communities. The federal government has promised a \$235 million forestry aid package, which will provide additional employment insurance benefits to laid-off forestry workers and promote the development of other industries in forestry-dependent regions.

Many companies have already announced large drops in third quarter profits and are slashing profit outlooks for future quarters. Citing market prices below production costs, one firm has announced its intention to shut down two mills along the coast, laying off 233 employees in the process. Another company has announced that it plans to move its value-added milling operation from British Columbia to Washington to circumvent U.S. duties.

More such closures can be expected until prices increase or the softwood dispute is resolved. Closures are likely to be centred in coastal regions, which are typically higher cost operations than those in the interior. Many mills in the interior have ramped up production in an attempt to defend profit margins by exploiting economies of scale. The surging Canadian residential sector has managed to soak up some of the increased interior supply. However, further increases in production levels could add to excess supplies on world markets, increasing downward price pressures and worsening the sector's problems.

B.C. pulp and paper exports 16.6 per cent lower than during the same months of 2001. With stronger economic growth in the United States and internationally, demand for pulp and paper products should rebound gradually.

The provincial government has recently lifted the seven-year moratorium on new salmon farms off the B.C. coast. Officials estimate that the controversial move could create 12,000 direct and indirect jobs and generate \$1 billion annually, a major jump from current levels. The move, however, has been controversial. Environmental groups, concerned over the possible impact of salmon farms on the wild salmon stock, have called for a continuation of the moratorium. Even if the moratorium is lifted, as planned, the current depressed world price of salmon and the high degree of global competition should limit potential growth.

The drought that has had such a devastating effect on prairie agriculture this year has had little effect on the sector in British Columbia. Weather conditions for fruit, grain and vegetable crops have been good across most parts of the province. Favourable weather conditions will lead to moderate growth of 1.1 per cent this year in B.C. agricultural output.

### EMPLOYMENT: MORE OF THE SAME

British Columbia's employment picture remains vibrant despite reduced logging and mill closures, which have cost thousands of positions in forestry and related industries since the beginning of the year.

Employment gains have been strengthening since the fourth quarter of last year. An impressive 89,500 positions have been gained since last December, with increases spread across the finance, retail, manufacturing, and construction sectors. The year's gains have more than erased the 61,000 job losses experienced over the course of 2001. The summer months saw some spectacular jumps, with increases of 27,200 positions in June, then 15,900 in July and 16,400 more in August. Employment growth is expected to continue, albeit at a more sustainable rate, through the rest of the year and into next year. Annual employment is expected to grow by 1.5 per cent in 2002 and 2003.

## GOVERNMENT

Recent announcements indicate a lower-than-anticipated first quarter provincial deficit. Higher-than-expected revenues, to the tune of \$110 million, and lower government expenditures—in large part the result of falling unemployment and welfare payments—reduced the first quarter deficit below levels set out in last year's provincial budget.

Total August B.C. social assistance cases were down 15 per cent from the same month last year. Temporary assistance cases stood at 81,665 cases, down 3 per cent from the previous month alone and down almost a quarter from August 2001. Government projections indicate that the deficit for the full year will be \$400 million less than the original \$4.4 billion deficit forecast, but even with the improved fiscal outlook this year's provincial deficit will remain one of the largest in British Columbia's history. The provincial government remains confident that it can cut the size of subsequent deficits and that it will be able to table a balanced budget by 2004–05.

## INCOME AND RETAIL

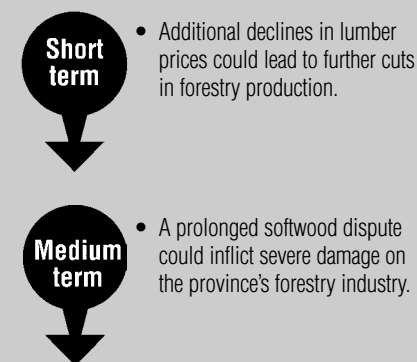
Newly created jobs will result in a 4.1 per cent leap in personal disposable income in 2003, following a 3.9 per cent jump this year. With newly found money in their pockets, B.C. consumers have been growing in confidence, as reflected by the upward trend in consumer sentiment over the past few quarters. New confidence and additional income should have a beneficial impact on retail sales numbers; they are expected to show robust growth of 6.7 per cent this year, followed by solid 4.1 per

cent annual growth in 2003. The wholesale and retail trade sector will be one of the principal sources of growth in services industries in 2002 and 2003.

## TOURISM

The reduction in international air traffic since the events of last September continues to take a toll on the B.C. tourist industry. The numbers of international visitors from all destinations are down sharply. Recent data show traffic into Vancouver airport 7.2 per cent lower in July than a year earlier. The drop for Victoria is even greater, at 8.9 per cent. Despite the reduction in air traffic, B.C. auto and ferry traffic during June and July showed a modest increase over the same period last year. According to the most recent data, overall visits to British Columbia were 1.1 per cent lower between January and July than during the same period a year earlier. Despite the drop in visitors, hotel room revenues were almost the same in both years.

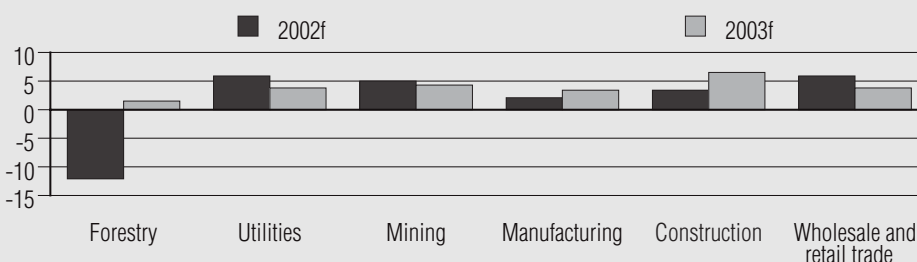
### Forecast Risks



Source: The Conference Board of Canada.

### Industry Outlook

(1997 \$, percentage change)



Sources: Statistics Canada; The Conference Board of Canada.

# Key Economic Indicators: British Columbia

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	131,490 2.0	135,021 2.7	136,440 1.1	138,140 1.2	138,821 0.5	140,273 1.0	141,902 1.2	143,679 1.3	144,999 0.9	147,145 1.5	148,737 1.1	150,511 1.2	135,273 2.5	141,169 4.4	147,848 4.7
<b>GDP at basic prices</b> (current \$)	119,852 1.6	123,122 2.7	124,141 0.8	125,728 1.3	126,280 0.4	127,618 1.1	129,126 1.2	130,783 1.3	131,971 0.9	133,979 1.5	135,432 1.1	137,060 1.2	123,211 1.7	128,451 4.3	134,611 4.8
<b>GDP at basic prices</b> (constant \$ 1997)	115,213 0.9	116,782 1.4	117,624 0.7	118,407 0.7	119,062 0.6	119,832 0.6	120,922 0.9	121,951 0.9	122,713 0.6	123,515 0.7	124,319 0.7	125,105 0.6	117,007 2.7	120,442 2.9	123,913 2.9
<b>Consumer price index</b> (1992=1.0)	1.160 0.7	1.180 1.8	1.188 0.7	1.193 0.4	1.196 0.2	1.200 0.4	1.205 0.4	1.210 0.4	1.216 0.5	1.222 0.5	1.227 0.4	1.231 0.4	1.180 2.5	1.203 1.9	1.224 1.8
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.040 0.8	1.054 1.3	1.055 0.1	1.062 0.6	1.061 -0.1	1.065 0.4	1.068 0.3	1.072 0.4	1.075 0.3	1.085 0.9	1.089 0.4	1.096 0.6	1.053 -1.0	1.066 1.3	1.086 1.9
<b>Average weekly wages</b> (level)	662 0.6	657 -0.8	669 1.9	674 0.8	679 0.7	684 0.7	689 0.7	694 0.7	699 0.7	704 0.8	710 0.8	716 0.8	665 1.1	686 3.1	707 3.0
<b>Personal income</b> (current \$)	111,526 0.8	111,646 0.1	114,608 2.7	115,623 0.9	116,518 0.8	117,564 0.9	118,695 1.0	119,919 1.0	121,299 1.2	122,553 1.0	123,883 1.1	125,160 1.0	113,351 2.9	118,174 4.3	123,223 4.3
<b>Personal disposable income</b> (current \$)	85,492 0.9	86,068 0.7	88,267 2.6	88,972 0.8	89,564 0.7	90,286 0.8	91,122 0.9	92,014 1.0	93,418 1.5	94,462 1.1	95,431 1.0	96,358 1.0	87,200 3.9	90,746 4.1	94,917 4.6
<b>Personal savings rate</b>	-4.1	-5.4	-4.0	-4.5	-4.7	-5.0	-5.1	-5.2	-4.8	-4.9	-5.1	-5.4	-4.5	-5.0	-5.1
<b>Population of labour force age</b> (000s)	3,307 0.3	3,320 0.4	3,331 0.3	3,344 0.4	3,356 0.4	3,368 0.4	3,378 0.3	3,390 0.3	3,410 0.6	3,419 0.2	3,425 0.2	3,438 0.4	3,326 1.4	3,373 1.4	3,423 1.5
<b>Labour force</b> (000s)	2,125 0.8	2,147 1.1	2,171 1.1	2,169 -0.1	2,170 0	2,172 0.1	2,181 0.4	2,189 0.4	2,197 0.3	2,200 0.2	2,205 0.2	2,211 0.3	2,153 2.3	2,178 1.2	2,203 1.2
<b>Employment</b> (000s)	1,936 0.9	1,954 0.9	1,996 2.1	1,998 0.1	1,993 -0.2	1,996 0.1	2,002 0.3	2,010 0.4	2,018 0.4	2,025 0.4	2,034 0.4	2,041 0.3	1,971 1.5	2,000 1.5	2,029 1.5
<b>Unemployment rate</b>	8.9	9.0	8.1	7.9	8.2	8.1	8.2	8.2	8.1	8.0	7.7	7.7	8.5	8.2	7.9
<b>Retail sales</b> (current \$)	39,551 2.1	40,400 2.1	40,877 1.2	41,319 1.1	41,607 0.7	42,043 1.0	42,380 0.8	42,758 0.9	43,236 1.1	43,732 1.1	44,221 1.1	44,714 1.1	40,537 6.7	42,197 4.1	43,976 4.2
<b>Housing starts</b> (units)	18,700 5.4	19,700 5.3	23,333 18.4	22,000 -5.7	19,669 -10.6	19,224 -2.3	18,838 -2.0	18,513 -1.7	18,248 -1.4	18,043 -1.1	17,897 -0.8	17,812 -0.5	20,933 21.5	19,061 -8.9	18,000 -5.6

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.

# Key Economic Indicators: Canada

(Forecast Completed: October 21, 2002)

	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2002	2003	2004
<b>GDP at market prices</b> (current \$)	1,107,212 2.4	1,138,212 2.8	1,150,660 1.1	1,162,161 1.0	1,174,932 1.1	1,188,473 1.2	1,205,279 1.4	1,222,020 1.4	1,237,076 1.2	1,251,002 1.1	1,264,679 1.1	1,278,348 1.1	1,139,561 4.3	1,197,676 5.1	1,257,776 5.0
<b>GDP at basic prices</b> (current \$)	1,026,060 2.1	1,055,240 2.8	1,064,898 0.9	1,075,614 1.0	1,087,481 1.1	1,100,229 1.2	1,116,191 1.5	1,132,095 1.4	1,146,235 1.2	1,159,202 1.1	1,171,904 1.1	1,184,552 1.1	1,055,453 3.8	1,108,999 5.1	1,165,473 5.1
<b>GDP at basic prices</b> (constant \$ 1997)	955,115 1.4	966,107 1.2	977,935 1.2	984,392 0.7	991,302 0.7	999,049 0.8	1,009,457 1.0	1,019,407 1.0	1,027,266 0.8	1,034,681 0.7	1,041,830 0.7	1,048,636 0.7	970,887 3.3	1,004,804 3.5	1,038,103 3.3
<b>Consumer price index</b> (1992=1.0)	1.169 0.7	1.187 1.5	1.200 1.1	1.207 0.6	1.213 0.5	1.218 0.4	1.222 0.4	1.229 0.5	1.237 0.6	1.245 0.7	1.251 0.5	1.257 0.5	1.191 2.3	1.220 2.5	1.248 2.2
<b>Implicit price deflator— GDP at basic prices</b> (1997=1.0)	1.074 0.8	1.092 1.7	1.089 -0.3	1.093 0.3	1.097 0.4	1.101 0.4	1.106 0.4	1.111 0.4	1.116 0.5	1.120 0.4	1.125 0.4	1.130 0.4	1.087 0.5	1.104 1.5	1.123 1.7
<b>Average weekly wages</b> (level)	673 0.4	675 0.3	681 1.0	687 0.9	693 0.8	698 0.7	703 0.7	708 0.8	713 0.8	719 0.8	725 0.8	731 0.8	679 1.9	700 3.1	722 3.1
<b>Personal income</b> (current \$)	891,584 1.4	899,208 0.9	910,249 1.2	918,401 0.9	928,483 1.1	937,357 1.0	948,884 1.2	960,153 1.2	970,633 1.1	980,750 1.0	991,212 1.1	1,001,696 1.1	904,861 3.7	943,719 4.3	986,073 4.5
<b>Personal disposable income</b> (current \$)	685,544 1.7	695,596 1.5	703,364 1.1	709,000 0.8	716,525 1.1	722,676 0.9	731,238 1.2	739,473 1.1	750,715 1.5	759,132 1.1	766,735 1.0	774,331 1.0	698,376 4.9	727,478 4.2	762,728 4.8
<b>Personal savings rate</b>	5.3	5.3	5.4	5.0	4.9	4.5	4.5	4.4	4.7	4.6	4.5	4.2	5.2	4.6	4.5
<b>Population of labour force age</b> (000s)	24,816 0.3	24,904 0.4	25,021 0.5	25,099 0.3	25,170 0.3	25,247 0.3	25,325 0.3	25,404 0.3	25,483 0.3	25,563 0.3	25,644 0.3	25,725 0.3	24,960 1.4	25,287 1.3	25,604 1.3
<b>Labour force</b> (000s)	16,490 0.9	16,605 0.7	16,723 0.7	16,766 0.3	16,792 0.2	16,800 0	16,869 0.4	16,947 0.5	17,000 0.3	17,062 0.4	17,122 0.4	17,181 0.3	16,646 2.4	16,852 1.2	17,091 1.4
<b>Employment</b> (000s)	15,199 0.7	15,339 0.9	15,460 0.8	15,486 0.2	15,536 0.3	15,566 0.2	15,669 0.7	15,760 0.6	15,816 0.4	15,874 0.4	15,937 0.4	15,992 0.3	15,371 2.0	15,633 1.7	15,905 1.7
<b>Unemployment rate</b>	7.8	7.6	7.5	7.6	7.5	7.3	7.1	7.0	7.0	7.0	6.9	6.9	7.7	7.2	6.9
<b>Retail sales</b> (current \$)	302,721 2.6	305,170 0.8	308,831 1.2	311,938 1.0	315,504 1.1	318,977 1.1	322,512 1.1	325,940 1.1	329,557 1.1	333,306 1.1	336,925 1.1	340,736 1.1	307,165 6.2	320,733 4.4	335,131 4.5
<b>Housing starts</b> (units)	204,200 19.4	195,700 -4.2	205,700 5.1	199,452 -3.0	184,705 -7.4	181,718 -1.6	179,058 -1.5	176,727 -1.3	174,724 -1.1	173,049 -1.0	171,703 -0.8	170,684 -0.6	201,263 23.7	180,552 -10.3	172,540 -4.4

White area represents forecast data.

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

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

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; The Conference Board of Canada.

# Gross Domestic Product by Province and Industry

(Forecast Completed: October 21, 2002)

	Newfoundland				P.E.I.				Nova Scotia				New Brunswick				Quebec		
	2002	2003	2004		2002	2003	2004		2002	2003	2004		2002	2003	2004		2002	2003	2004
<b>Agriculture</b>	56 1.0	58 2.7	59 1.8		128 32.0	138 7.5	140 1.8		222 12.3	228 2.5	232 2.1		269 1.5	277 2.7	282 1.8		2,519 0.5	2,592 2.9	2,642 1.9
<b>Forestry</b>	103 -0.9	102 -1.0	106 3.7		18 -0.2	18 -0.9	19 4.1		65 0.5	65 -0.4	68 4.7		320 0	317 -0.9	333 5.0		945 -6.3	949 0.5	995 4.8
<b>Fishing &amp; trapping</b>	216 6.7	221 2.3	228 3.2		60 9.0	60 1.0	62 2.5		237 6.5	241 1.7	248 2.7		85 6.4	86 1.4	88 2.6		141 76.3	139 -1.5	142 2.4
<b>Mining</b>	2,376 55.9	2,464 3.7	2,488 1.0		4 6.7	4 5.3	4 2.1		385 7.3	407 5.7	416 2.3		342 3.3	362 5.8	373 3.1		1,469 1.5	1,559 6.1	1,611 3.3
<b>Manufacturing</b>	756 1.9	778 2.9	806 3.7		287 3.4	296 3.2	308 4.0		2,431 2.8	2,525 3.9	2,624 3.9		2,538 3.5	2,639 4.0	2,745 4.0		45,471 2.8	46,825 3.0	49,321 5.3
<b>Construction</b>	563 4.1	616 9.4	583 -5.4		135 -1.4	135 -0.1	138 2.2		1,251 11.8	1,399 11.8	1,380 -1.4		773 0	901 16.6	914 1.5		11,543 13.6	11,962 3.6	12,115 1.3
<b>Utilities</b>	488 2.7	504 3.4	516 2.3		41 3.5	43 4.6	44 4.0		570 3.4	593 3.9	609 2.7		764 2.6	784 2.7	807 3.0		8,106 1.8	8,482 4.6	8,783 3.5
<b>Goods-producing industries</b>	4,558 25.1	4,743 4.1	4,787 0.9		673 7.2	694 3.1	715 3.1		5,161 5.8	5,457 5.7	5,576 2.2		5,091 2.5	5,365 5.4	5,542 3.3		70,193 4.1	72,508 3.3	75,608 4.3
<b>Transportation, storage &amp; communication</b>	1,126 4.4	1,180 4.8	1,194 1.2		221 4.3	227 2.6	234 3.0		2,017 2.7	2,095 3.9	2,152 2.7		1,744 3.7	1,795 2.9	1,842 2.6		19,252 3.0	19,761 2.6	20,331 2.9
<b>Wholesale &amp; retail trade</b>	1,251 2.7	1,285 2.7	1,321 2.9		319 1.3	327 2.6	337 3.1		2,614 4.7	2,720 4.1	2,809 3.3		1,961 1.7	2,010 2.5	2,066 2.8		24,981 6.9	25,790 3.2	26,697 3.5
<b>Finance, insurance &amp; real estate</b>	1,917 2.6	1,950 1.7	1,975 1.2		615 4.4	630 2.4	643 2.1		4,625 2.0	4,717 2.0	4,790 1.5		3,133 3.6	3,201 2.2	3,246 1.4		34,911 3.9	35,667 2.2	36,367 2.0
<b>Community, business &amp; personal services</b>	2,738 2.0	2,817 2.9	2,883 2.3		725 2.6	745 2.7	772 3.7		4,976 2.3	5,073 1.9	5,180 2.1		3,858 2.6	3,954 2.5	4,049 2.4		45,594 2.8	47,045 3.2	48,431 2.9
<b>Public administration &amp; defence</b>	1,054 2.5	1,072 1.7	1,084 1.1		387 2.9	398 2.8	406 2.1		2,155 2.9	2,212 2.6	2,253 1.9		1,783 4.7	1,829 2.6	1,856 1.5		12,893 4.6	13,236 2.7	13,478 1.8
<b>Service-producing industries</b>	8,086 2.6	8,304 2.7	8,456 1.8		2,267 3.1	2,326 2.6	2,392 2.8		16,387 2.7	16,817 2.6	17,184 2.2		12,480 3.1	12,789 2.5	13,060 2.1		137,631 4.0	141,499 2.8	145,304 2.7
<b>All industries</b>	12,622 9.7	13,024 3.2	13,220 1.5		2,940 4.0	3,020 2.7	3,107 2.9		21,547 3.4	22,272 3.4	22,758 2.2		17,582 3.0	18,165 3.3	18,613 2.5		207,831 4.0	214,013 3.0	220,919 3.2

White area represents forecast data.

All data are in millions of 1997 dollars.

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

Sources: The Conference Board of Canada.

# Gross Domestic Product by Province and Industry

(Forecast Completed: October 21, 2002)

	Ontario			Manitoba			Saskatchewan			Alberta			British Columbia		
	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003
<b>Agriculture</b>	3,451 5.5	3,640 5.5	3,685 1.2	1,460 13.1	1,534 5.0	1,569 2.3	2,006 -4.3	2,601 29.6	2,703 3.9	2,460 -11.6	2,986 21.4	3,095 3.6	1,251 1.1	1,272 1.6	1,294 1.8
<b>Forestry</b>	619 -3.0	612 -1.1	642 4.9	59 -4.8	58 -1.0	61 5.0	63 3.1	62 -1.1	66 4.9	334 -5.4	332 -0.8	349 5.3	3,456 -12.1	3,509 1.5	3,731 6.3
<b>Fishing &amp; trapping</b>	74 81.7	72 -2.8	69 -4.2	16 8.7	17 3.9	17 1.3	6 8.9	6 3.9	6 1.3	2 7.4	2 2.9	2 0.8	171 6.2	175 2.6	185 5.5
<b>Mining</b>	2,804 2.4	2,971 6.0	3,067 3.2	635 2.2	673 6.1	695 3.2	4,117 -1.1	4,298 4.4	4,431 3.1	20,775 -2.4	22,660 9.1	24,138 6.5	3,569 5.0	3,721 4.3	3,835 3.1
<b>Manufacturing</b>	85,342 3.0	89,008 4.3	93,039 4.5	4,062 3.8	4,216 3.8	4,400 4.4	2,073 3.4	2,147 3.6	2,234 4.1	12,159 3.6	12,443 2.3	12,998 4.5	12,252 2.1	12,667 3.4	13,171 4.0
<b>Construction</b>	20,000 3.9	20,746 3.7	21,321 2.8	1,471 6.1	1,454 -1.2	1,580 8.7	1,450 9.2	1,302 -10.3	1,422 9.2	8,769 -3.7	9,331 6.4	9,723 4.2	6,060 3.4	6,454 6.5	6,483 0.5
<b>Utilities</b>	10,796 3.4	11,218 3.9	11,545 2.9	1,214 3.3	1,265 4.2	1,305 3.1	760 3.0	784 3.1	802 2.3	3,023 3.9	3,141 3.9	3,234 3.0	2,580 5.9	2,678 3.8	2,771 3.5
<b>Goods-producing industries</b>	123,085 3.2	128,267 4.2	133,368 4.0	8,917 5.3	9,217 3.4	9,626 4.4	10,476 0.7	11,199 6.9	11,663 4.1	47,522 -1.4	50,895 7.1	53,539 5.2	29,338 1.1	30,476 3.9	31,470 3.3
<b>Transportation, storage &amp; communication</b>	35,695 3.9	36,770 3.0	37,825 2.9	3,292 3.0	3,404 3.4	3,499 2.8	2,832 2.1	2,943 3.9	3,015 2.5	11,252 3.8	11,619 3.3	11,978 3.1	12,306 2.8	12,635 2.7	12,970 2.7
<b>Wholesale &amp; retail trade</b>	50,530 5.9	52,301 3.5	54,390 4.0	3,832 5.1	3,945 2.9	4,071 3.2	3,053 3.6	3,173 4.0	3,286 3.5	12,259 5.1	12,658 3.3	13,146 3.9	12,776 5.9	13,267 3.8	13,756 3.7
<b>Finance, insurance &amp; real estate</b>	86,984 3.6	88,935 2.2	91,005 2.3	6,197 3.2	6,321 2.0	6,402 1.3	4,750 2.2	4,798 1.0	4,838 0.8	20,212 5.5	20,966 3.7	21,638 3.2	27,013 3.9	27,685 2.5	28,360 2.4
<b>Community, business &amp; personal services</b>	89,938 2.4	93,507 4.0	96,998 3.7	6,929 2.0	7,152 3.2	7,410 3.6	6,062 1.2	6,226 2.7	6,390 2.6	24,122 3.4	25,039 3.8	25,960 3.7	29,455 2.0	30,344 3.0	31,327 3.2
<b>Public administration &amp; defence</b>	19,919 1.7	20,605 3.4	21,205 2.9	2,400 3.2	2,467 2.8	2,514 1.9	1,709 2.9	1,746 2.2	1,777 1.7	4,952 4.0	5,130 3.6	5,290 3.1	6,046 1.5	5,962 -1.4	5,957 -0.1
<b>Service-producing industries</b>	283,066 3.5	292,117 3.2	301,424 3.2	22,651 3.1	23,289 2.8	23,896 2.6	18,404 2.1	18,887 2.6	19,306 2.2	72,797 4.4	75,412 3.6	78,012 3.4	87,596 3.2	89,894 2.6	92,371 2.8
<b>All industries</b>	406,067 3.4	420,299 3.5	434,707 3.4	31,559 3.7	32,498 3.0	33,513 3.1	28,879 1.6	30,085 4.2	30,968 2.9	120,341 2.0	126,329 5.0	131,574 4.2	117,007 2.7	120,442 2.9	123,913 2.9

White area represents forecast data.

All data are in millions of 1997 dollars.

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

Sources: The Conference Board of Canada.

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