

SPECIAL QUÉBEC - ONTARIO FORECASTS: ECONOMIC SLOWDOWN WILL PEAK IN 2007 BUT DISSIPATE THEREAFTER

HIGHLIGHTS

Québec

- The economic slump in the U.S. will further weaken Québec's economy in 2007. Real GDP will advance a mere 1.1% this year, compared with 1.6% in 2006.
- Weak exports will be the main barrier to economic growth in 2007. Already at a record level, the trade deficit will widen to over \$15 billion in constant dollars.
- The manufacturing sector will continue to struggle and layoffs will again hold back job growth. Unemployment will rise from an average of 8% in 2006 to 8.2%.
- The Québec economy will rebound in 2008, fuelled by the recovery in the U.S. Real GDP will reach 2.3%, a rate more in line with its long-term potential.

Ontario

- Already hammered by the strength of the Canadian dollar, weakness in the automotive sector and high commodity prices, the Ontario economy will now have to deal with sagging demand south of the border. Real GDP will therefore only advance 1.4% in 2007 but pick up to 2.6% in 2008.
- A deteriorating trade balance will continue to drag down the provincial economy but robust consumption and investment will prevent a major slump.
- Massive layoffs in the manufacturing sector will hold back job growth again this year.
- The housing market will continue to lose steam. Renovation spending will remain strong but new construction and resales will drop in 2007 and 2008.

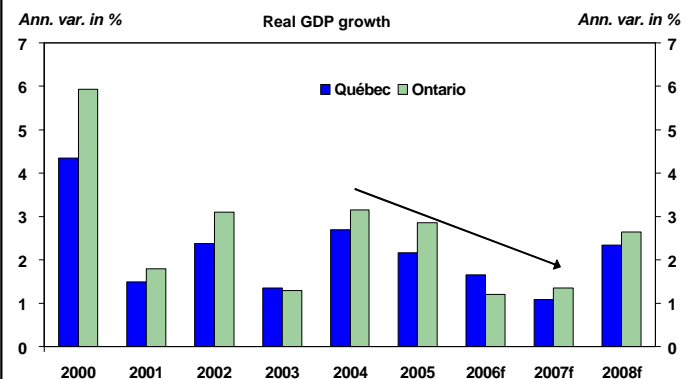
Against the backdrop of the forestry crisis, several Québec regions are undergoing difficult structural adjustments. The 2007 outlook is on page 4.

Forecast summary - Québec

The economic slowdown is already well underway in Québec, and 2007 is shaping up to be particularly tough. The industrial sector, which has been in pretty bad shape for a while now, will see its exporters bear the brunt of the downturn south of the border. The manufacturing sector's woes are still not over despite the loonie's recent dip and oil prices that seem to have stabilized at around US\$60 per barrel. International exports slowed down throughout 2006 and will continue on this path in 2007.

Although not as high as last fall, the risk of a U.S. recession places Québec in a very delicate position since the extent of the slowdown south of the border will be decisive for our economy. The province's massive trade deficit is increasingly

Central Canada will have a tough year in 2007



Sources: Institut de la Statistique du Québec (ISQ), Ontario Ministry of Finance (OMF) and Desjardins, Economic Studies

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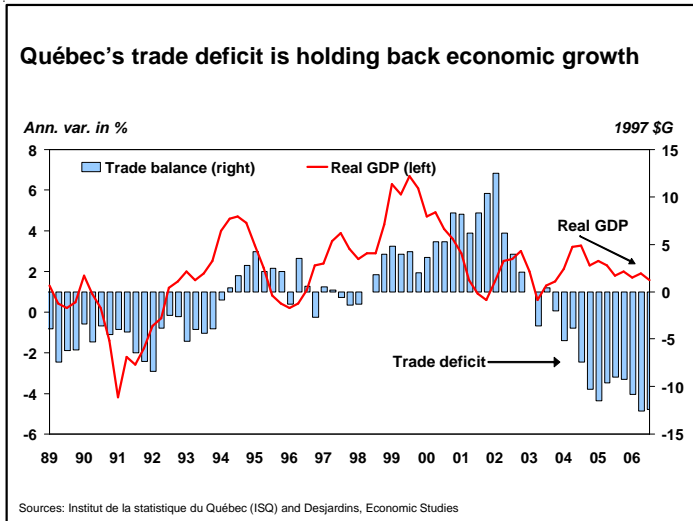
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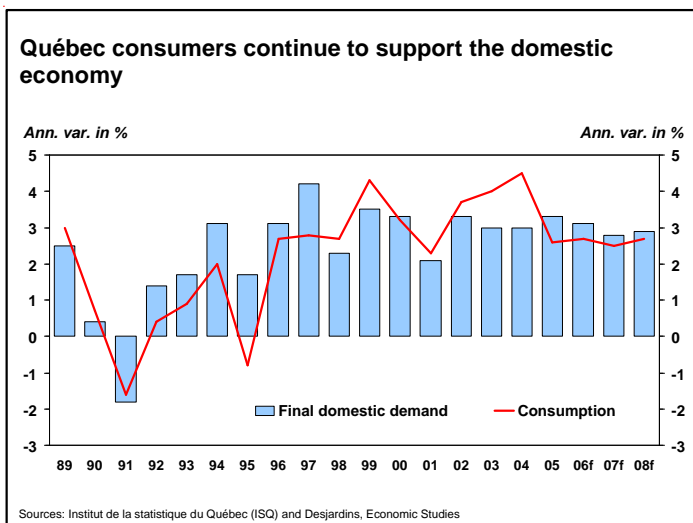
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holding back real GDP with the result that growth is relying almost exclusively on domestic demand. If international exports tumble this year as they did during the 2001 U.S. recession, Québec's real GDP will definitely take a hit. And although such a scenario is still premature, it is worth noting.



However, domestic demand should hold steady, fuelled by consumer spending, which accounts for 60% of the provincial economy. While it is true that consumption could lose steam this year due to sluggish job growth, salary equity adjustments should keep spending alive and well. The Québec government will be making a \$1.8 billion retroactive payment this spring as part of a pay equity settlement. Although these amounts affect only a part of the civil service workforce, this massive amount will boost consumer spending in 2007, thereby tempering the slowdown.

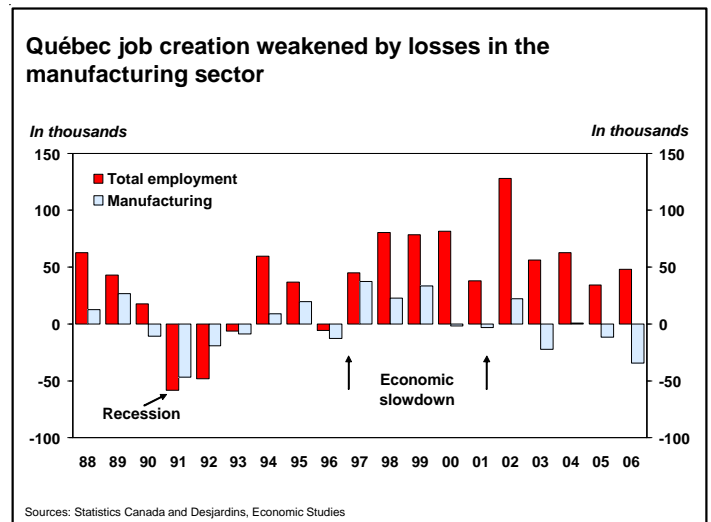
Business investment and public spending will support domestic demand, resulting in a soft landing in 2007 despite the deterioration in foreign trade.



In 2008, the rebounding U.S. economy will pull Québec out of its slump. An upturn in international exports will push real GDP to 2.3%, a decidedly better rate than the projected 1.1% this year. Nevertheless, Québec will still lag behind Canada, whose growth is projected at 2.2% this year and 2.8% in 2008.

Consumers: key drivers of growth

Consumer spending was surprisingly strong in 2006 but is expected to ebb somewhat in 2007, pulled down by much weaker job creation, due in large part to layoffs in the manufacturing sector. The 30,000 new jobs expected this year will be the smallest number created since the economic downturn of 1995. Still, this figure doesn't even come close to the massive layoffs of the last recession in the early '90s.



Sluggish job growth could take a bit of a toll on consumer confidence, which is currently slightly higher than its historical average. Consumer spending is expected to increase 2.8% this year, slightly less than the 3.1% recorded in 2006.

The provincial government's pay equity settlement will prevent consumption from lowering this year. The amount is considerable: \$1.8 billion will be paid out in the spring. Since about a third of this amount is expected to leave consumers' pockets, the pay equity settlement will offset the impact of weak job growth in 2007.

In 2008, the economic recovery will stimulate the job market, resulting in 50,000 new positions, a clear improvement over the 30,000 projected this year. This means unemployment may finally drop below 8% to 7.7% on average next year, versus 8.2% in 2007.

Thanks to consumer resilience, Québec will experience a moderate economic slowdown in 2007. Given that consumer confidence is high, that job creation—although weak—is expected to rebound and that interest rates are historically low, consumption should not be as severely affected as it was during the last two recessions. Moreover, unlike the U.S., Québec will escape a housing market correction, which also bodes well for spending.

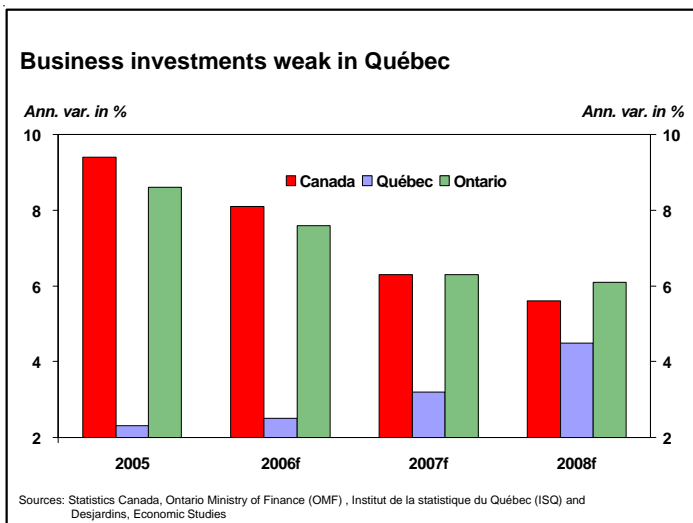
A tougher business climate in 2007

The industrial sector has had to overcome a number of stumbling blocks in recent years: the appreciation of the loonie, high oil prices, and intensifying global competition. Although it has managed to hold its own until now, the crisis in such sectors as forestry and pulp and paper are hammering some regions. With the deceleration of the American economy, exporters will have an even tougher time making structural adjustments in 2007.

Although a drop in exports is unavoidable this year, the magnitude will be less than that observed during the 2001 U.S. recession. The gradual slowing of the U.S. economy, whose growth will shrink from 3.4% in 2006 to 2.5% in 2007, will limit the damage. However, should the U.S. fall into a recession, Québec exports will take a serious hit.

At this time, nothing points to a recession in the industrial sector. Although the ISM manufacturing index—a good predictor of future activity on this side of the border—recently fell below the critical 50 level, it is still above the 40 mark, which usually precedes a major contraction in Québec's industrial sector.

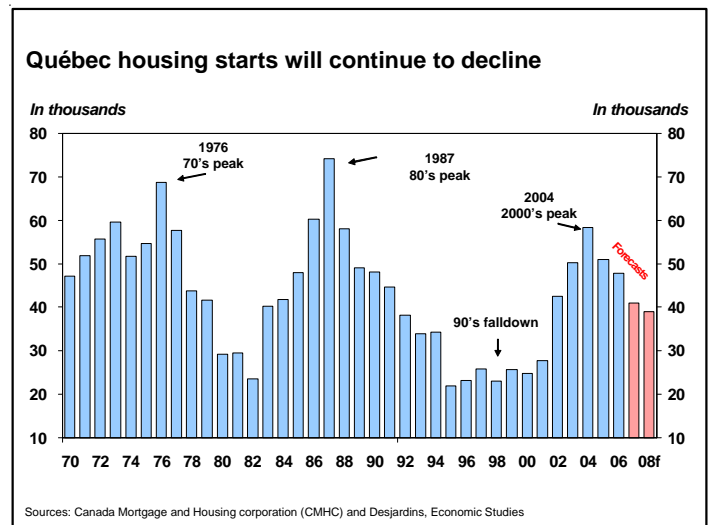
On the business investment front, Québec is lagging behind the rest of the country. Even Ontario, which is in a serious slump, is doing better. Investments in modernization are up only marginally despite the fact that the loonie's strength has



made American equipment cheaper to purchase. On the construction side, a number of major projects were recently announced, including Alcan's new \$550 million plant in Saguenay and the Eastmain-1A powerhouse. A number of investments are also expected in the petrochemical and mining sectors this year. Overall, business spending should rise 3.2% in 2007 and 4.5% the year after.

Housing market heading for a soft landing

Following the construction boom that saw housing starts double from 2001 to 2004, the slowdown that began in 2005 will continue this year. Now that the rental and retail markets are once again almost balanced, the demand for new homes will more closely reflect demographic trends. Thus, housing starts will drop both this year and next, to 41,000 and 39,000 units respectively.



Although a record number of resale homes were sold last year, several signs indicate that the peak is behind us. The growing number of properties on the market is easing pressure: selling time is longer and prices are rising more slowly. The market will be much more balanced in 2007, translating into price increases of about 3%, a pace closer to the projected inflation rate (about 2%). There will be no broadbased decrease such as the one observed in the 1990s as a result of the surplus in rental units and homes on the resale market. High-end properties may lose some value in the near term. There are many more condos and high-end properties for sale than buyers over the past months.

REGIONAL FORECAST SUMMARY

Several Québec regions are in the midst of restructuring

The Québec economy is in a slump. Signs of weakness have been clearly visible since early 2005 and have only become stronger in recent months. 2007 will be another tough year, although some indicators, particularly in the U.S., are raising new hopes that the Québec economy will revive in the coming months. However, we shouldn't be overly optimistic because even if things improve as the year progresses, a number of structural problems persist, mainly in Québec's outlying regions.

In effect, there has been growing inequality between the regions for some time now. The rising loonie, stronger international

competition, rising American protectionism and shrinking opportunities, for example, in the forestry industry, have required certain sectors to make adjustments. Moreover, the shortage of qualified labour, obsolete equipment and insufficient funding in the high-tech sectors continue to pose major obstacles to growth in many regions.

The outlook for 2007 does not bode well for many areas as capital and labour is shifted from low value-added to high value-added sectors. Still, some opportunities do exist to help bolster these economies.

QUÉBEC REGIONS: NOMINAL GDP (% GROWTH)

	2003	2004	2005f	2006f	2007f
RESOURCE REGIONS					
Nord-du-Québec	7.7	12.1	1.4	--	--
Côte-Nord	13.9	4.9	2.2	--	-
Abitibi-Témiscamingue	3.7	5.7	2.1	--	-
Gaspésie - Îles-de-la-Madeleine	6.7	2.3	3.0	--	=
Saguenay - Lac-saint-Jean	5.8	5.3	3.7	--	=
Bas-Saint-Laurent	6.2	2.4	3.7	-	+
CENTRAL AND OUTAOUAIS REGIONS					
Estrie	6.5	3.2	3.6	--	-
Chaudière-Appalaches	8.5	3.6	3.8	--	+
Centre-du-Québec	5.0	1.2	4.2	-	+
Mauricie	5.1	4.2	3.7	=	=
Capitale-Nationale	6.4	3.4	3.9	=	+
Outaouais	4.8	4.2	3.8	++	+
MONTRÉAL OUTLYING REGIONS					
Laval	4.1	6.2	4.8	--	=
Lanaudière	6.5	6.2	4.1	--	=
Montréal	2.0	5.5	4.8	=	-
Laurentians	5.7	6.4	4.6	=	=
Montérégie	5.3	5.6	4.6	+	=
QUÉBEC TOTAL	3.8	4.9	4.0	3.7	2.8

Legend: = : close to provincial average
 + : greater than provincial average
 ++ : much greater than provincial average
 - : lower than provincial average
 -- : much lower than provincial average
 f : forecast

Sources: Institut de la statistique du Québec (ISQ) and Desjardins, Economic Studies

Resource regions: mining industry rebounds and major construction projects are back

The resource regions (Bas-Saint-Laurent, Saguenay-Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie-Îles-de-la-Madeleine) have an opportunity to revive their mining industry due to growing global demand for metals. Major construction projects are also making a comeback with, among others, confirmed and potential projects involving hydroelectric dams, new infrastructures for Alcan, and wind power development. However, these initiatives will be spread over several years and their impact will be almost imperceptible this year.

These projects also offer an excellent opportunity for regional companies to diversify, notably, through secondary processing of raw materials and through the service sector. This diversification should help recently unemployed workers from, among others, the forestry and wood processing industries, transition to other sectors and can also help young people who leave their region in search of work.

Central regions: restructuring in the manufacturing sector and a better outlook for services

In 2007, the central regions (Capitale-Nationale, Mauricie, Estrie, Chaudière-Appalaches, Centre-du-Québec and Outaouais) will be characterized by greater restructuring in the manufacturing sector and by an upturn in the service sector. Manufacturers in Mauricie, Estrie, Chaudière-Appalaches and Centre-du-Québec—regions that account for nearly 25% of the province's manufacturing jobs—will focus on carving out niches and boosting productivity.

The service sector will remain the pillar of the Capitale-Nationale and Outaouais regions, which will be banking on the continued recovery of the IT sector, on ongoing research in the fields of life sciences and composite materials, and on the presence of the civil service, among others.

Montréal and surrounding regions: major contracts secured by some manufacturing industries

The last group, consisting of Montréal and its surrounding regions (Laval, Lanaudière, Laurentians and Montérégie), will experience rather limited economic growth in 2007. Mirroring 2006, the manufacturing sector will continue to adjust to a difficult environment (soaring loonie, intensifying foreign competition, shrinking U.S. demand, etc.). However, some specialized fields (aeronautics, transportation equipment, electronic products, etc.) will fare better thanks to confirmed major contracts. Weakening residential construction will be offset by the construction of big-box stores and new health and education establishments. Like the central regions, the service sector will remain robust.

However, strong disparities between cities located close to Montréal and those north of the Laurentians and Lanaudière and south of Montérégie will continue to hold back the expansion of those located farther away.

Forecast summary - Ontario

The Ontario economy is going through a difficult time. The upheavals of the last few years, more specifically, the loonie's flight, the woes of the automotive industry, rising raw material prices and tougher global competition have hammered the manufacturing sector and shrunk the trade surplus. The fading housing market has also slowed economic activity. Real GDP even fell slightly in the third quarter of 2006, intensifying fears of a recession.

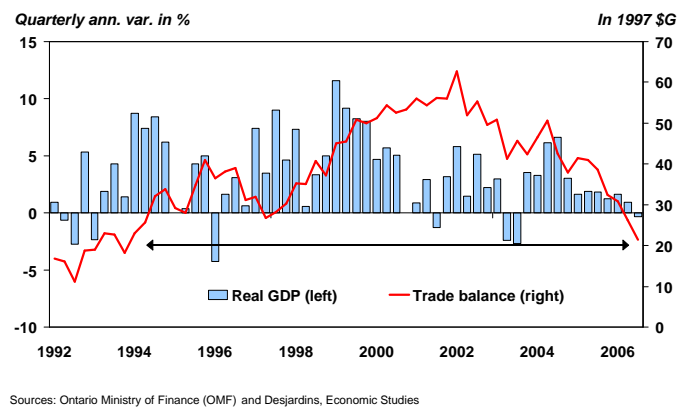
Although not expected, the Ontario economy could slow slightly at the end of 2006. This would then place the province in a "technical recession" (defined as a decline in real GDP over two consecutive quarters). Robust consumer spending and business investment should, however, make it possible to avoid a protracted slump like the one witnessed in the early '90s. Still, because manufacturers will continue to struggle, growth will be almost flat in the near term. Since their sales are largely derived from international exports, manufacturers will have to contend with softer U.S. demand in the first half of 2007. Moreover, the housing market will continue to limp along for another few years. We can therefore expect a lacklustre performance from the Ontario economy. Growth will be in the vicinity of 1.4% in 2007 and pick up slightly to 2.6% the year after. These figures will be well below the national projection of 2.2% this year and 2.8% in 2008.

Consumption: the main driver of growth

Until now, Ontario consumers have paid no heed to the economic downturn, choosing instead to boost spending. What's more, recent statistics show their confidence level remains high. Robust consumption is what kept the economy in the black in 2006 and should be the main driver of growth for the next few years.

However, this spending will be curbed somewhat by a lacklustre labour market. The manufacturing sector's struggle has led to many layoffs, which limited job creation in 2005 and 2006, and the situation is only expected to worsen in 2007. Yet despite sluggish job growth, unemployment will remain at the relatively low level of about 6.5%. A modest increase in disposable income will also curb consumer appetites and should send the savings rate into negative territory this year. With all that, real consumption is still projected to grow by about 3% in 2007 and 2008.

Ontario's lagging trade balance is dragging down real GDP

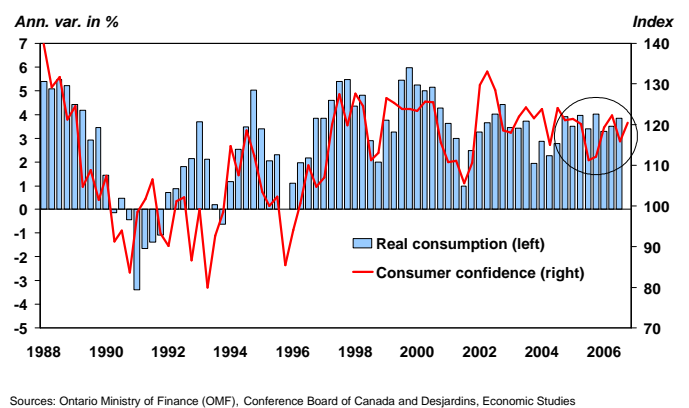


Business investment will grow despite everything

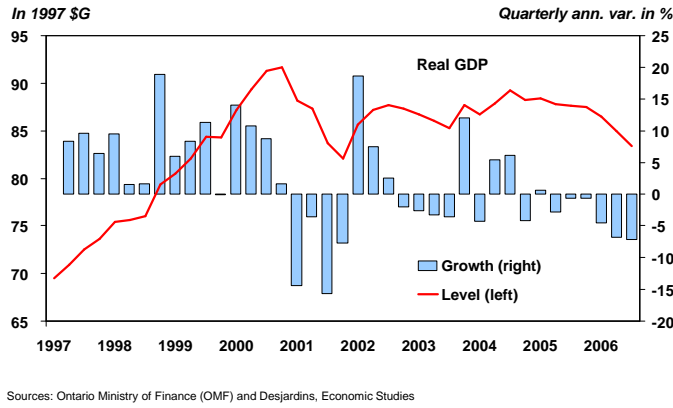
Businesses are facing numerous challenges. In particular, the manufacturing sector has been in a recession for several quarters, a situation that has been exacerbated by the troubled automotive industry. The coming months will be just as difficult for manufacturers, which will feel the fallout of the U.S. slowdown. However, things will look up in 2008 as the U.S. economy gradually recovers and Toyota opens its new plant. By then, businesses will have had the time to adjust to the strong loonie and high commodity prices.

Notwithstanding the difficult context, companies will continue to boost their investments at a good rate over the next few years as our strong dollar makes foreign equipment more affordable and low interest rates encourage investment. After rising steadily in the past couple of years, machinery and

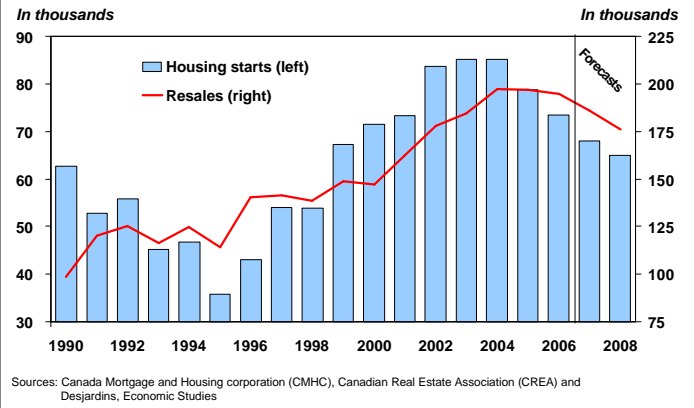
Ontario: confidence and consumption still strong



Ontario manufacturing sector already in recession



Ontario housing market will continue to slow



equipment purchase growth will slow slightly but remain above 5%. For its part, non-residential construction recently made a comeback and should continue to improve, fuelled by, among other things, resurgence in office building construction in Toronto.

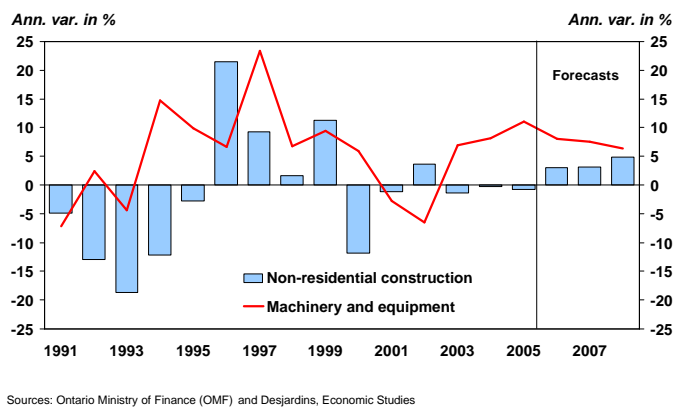
Housing market will continue to slow

After booming in the early 2000s, the housing market is now taking a breather. Surging prices and a slight increase in mortgage rates have made property purchases much less affordable, causing many households to choose rental over ownership. Housing starts fell sharply in 2005 and 2006 and will continue along this trend for the next two years. Resales, which until now boasted near record levels, are set to drop nearly 5% in 2007 and 2008. After slowing considerably last year, price increases will fall more in line with inflation going forward. Robust renovation spending will somewhat offset the drop in the other residential components, but overall, construction will contract slightly over the next two years.

Public spending will sustain growth

Public spending should rise approximately 3% in 2007 and 2008, sustaining Ontario's economy. Now that its deficit has been eliminated, the provincial government will increase its investments in priority sectors such as education and infrastructure. Many projects could be announced between now and the next provincial elections in the fall. A possible increase in federal transfer payments, aimed at resolving the fiscal imbalance issue, and the federal government's minority position, should also result in increased public spending.

Business investments will remain sustained in Ontario



QUÉBEC

GDP AND COMPONENTS

	2005	2006	2007		2008
			Forecasts		
Gross Domestic Product (1997 \$M)	237,981	241,901	244,510	250,229	
Change (%)	2.2	1.6	1.1	2.3	
Final Domestic Demand (%)	2.6	2.7	2.5	2.7	
Consumer Spending (%)	3.3	3.1	2.8	2.9	
Residential Construction (%)	-1.8	-1.9	-2.3	-3.5	
Non-Residential Investment (%)	2.3	2.5	3.2	4.5	
Public Expenditures (%)	2.8	2.9	2.7	2.7	
Exports (%)	3.1	1.0	-0.4	2.0	
Imports (%)	5.3	2.7	1.6	2.0	
Net exports (1997 \$M)	-9,833	-12,365	-15,327	-15,672	
Inventory Change (1997 \$M)	2,994	2,973	2,200	1,400	

CONSUMERS

	2005	2006	2007		2008
			Forecasts		
Employment (var. in thousands)	37	48	30	50	
Employment (var. in %)	1.0	1.3	0.8	1.3	
Unemployment rate (%)	8.3	8.0	8.2	7.7	
Average Weekly Earnings (\$)	688	705 ^e	718	734	
Change (%)	2.6	2.5 ^e	1.8	2.2	
Real P.D.I. ¹ (var. in %)	1.1	3.0 ^e	2.7	2.7	
Savings Rate (%)	1.3	1.2 ^e	1.0	0.6	
Retail Sales (var. in %)	5.8	5.1 ^e	4.0	4.8	
Inflation Rate (%)	2.3	1.8	1.7	2.3	

HOUSING

	2005	2006	2007		2008
			Forecasts		
Housing Starts (units)	50,910	47,877	41,000	38,000	
Change (%)	-12.9	-6.0	-14.4	-7.3	
Housing Resale (units)	70,649	72,520	69,250	63,000	
Change (%)	2.0	2.6	-4.5	-9.0	
Average Sales Price (\$ 000)	185	194	200	204	
Change (%)	7.9	5.1	2.8	2.3	
Rental Vacancy Rate (%)	2.0	2.5	3.2	3.5	

ONTARIO

GDP AND COMPONENTS

	2005	2006	2007		2008
			Forecasts		
Gross Domestic Product (1997 \$M)	483,962	489,760	496,379	509,528	
Change (%)	2.8	1.2	1.4	2.6	
Final Domestic Demand (%)	3.8	3.7	3.1	3.2	
Consumer Spending (%)	3.7	3.3	2.9	3.1	
Residential Construction (%)	1.8	0.3	-1.9	-0.8	
Non-Residential Investment (%)	8.6	7.6	6.3	6.1	
Public Expenditures (%)	3.1	4.0	3.2	2.8	
Exports (%)	1.7	-0.2	0.9	2.9	
Imports (%)	4.1	4.3	2.3	3.1	
Net exports (1997 \$M)	38,367	25,319	21,285	21,122	
Inventory Change (1997 \$M)	4,594	6,131	3,975	2,600	

CONSUMERS

	2005	2006	2007		2008
			Forecasts		
Employment (var. in thousands)	81	95	73	105	
Employment (var. in %)	1.3	1.5	1.1	1.6	
Unemployment rate (%)	6.6	6.3	6.5	6.3	
Average Weekly Earnings (\$)	769	787 ^e	799	818	
Change (%)	2.7	2.4 ^e	1.6	2.4	
Real P.D.I. ¹ (var. in %)	1.9	3.5 ^e	1.8	2.0	
Savings Rate (%)	1.6	1.7 ^e	0.7	-0.4	
Retail Sales (var. in %)	4.7	4.2 ^e	3.5	4.4	
Inflation Rate (%)	2.2	1.8	1.5	2.3	

HOUSING

	2005	2006	2007		2008
			Forecasts		
Housing starts (unités)	78,795	73,417	68,000	65,000	
Change (%)	-7.4	-6.8	-7.4	-4.4	
Housing Resale (units)	197,007	194,793	186,000	176,000	
Change (%)	-0.2	-1.1	-4.5	-5.4	
Average Sales Price (\$ 000)	263,042	278,455	285,500	291,250	
Change (%)	7.3	5.9	2.5	2.0	
Rental Vacancy Rate (%)	3.8	3.4	3.2	3.0	

CANADA

MAJOR FINANCIAL INDICATORS

End of period (%)	2007					2008				
	I	II	III	IV	Avg.	I	II	III	IV	Avg.
Prime Rate	6.00	6.00	5.50	5.50	5.75	5.50	5.50	5.75	6.25	5.75
Treasury Bills - 3-month	4.15	4.00	3.70	3.75	3.90	3.80	3.85	4.10	4.50	4.05
Federal Bonds - 2-year	4.05	3.75	3.90	4.20	3.95	4.30	4.50	4.60	4.75	4.55
- 10-year	4.10	3.90	4.10	4.50	4.15	4.70	4.80	4.90	5.00	4.85
US\$/CAN\$	84.50	83.50	85.00	88.00	85.25	90.00	91.75	92.00	92.50	91.50
S&P/TSX Index ²	Range 13,500 - 14,500; Target 14,000 (+8.5%)					Range 14,500 - 16,250; Target 15,750 (+12.5%)				

Sources: Statistics Canada, Bank of Canada, Ontario Ministry of Finance (OMF), Institut de la statistique du Québec (ISQ), Canada Mortgage and Housing Corporation (CMHC), Canadian Real Estate Association (CREA) and Desjardins, Economic Studies

¹: Real P.D.I. : Personal Disposable Income adjusted for inflation

²: Range and Target - end of period.

^e: Estimate