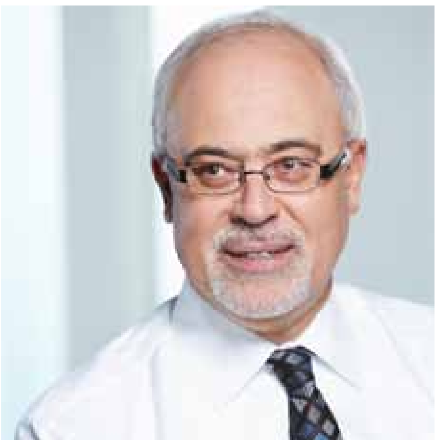
ECONOMIC OUTLOOK



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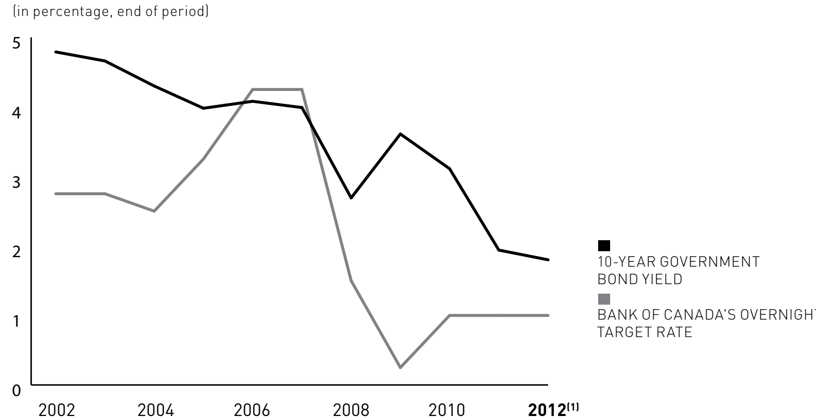
IMPROVING ECONOMIC BACKDROP TEMPERED BY U.S. AND EUROPEAN POLICY UNCERTAINTY

As we approach the end of another year marked by unsatisfactory economic growth and turbulent financial markets, four main themes emerge:

1 The global economy continues to grow, albeit at a slow and fragile pace. Significant risks remain namely in the euro-zone and in the United States and relating primarily to public policies. The Eurozone is now in recession and progress towards a closer fiscal union remains uneven. Nevertheless, the more extreme financial risks appear better contained now given the more aggressive monetary policy adopted by the European central bank in September. In the United States, the real economy appears to be turning around but uncertainty relating to the so-called "fiscal cliff", i.e. a possible massive fiscal contraction in early 2013, is keeping investors and consumers on the sidelines.

INTEREST RATES IN CANADA
(in percentage, end of period)



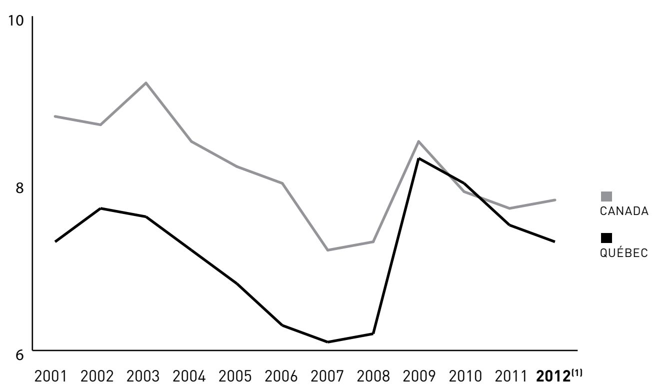
Source : Bank of Canada
(1) LBS Economic Research predictions

2 In such an uncertain environment, central banks, including the Bank of Canada, continue to maintain highly accommodating monetary policies. Global interest rates continue to grind lower and will stay low for longer than previously anticipated. The Bank of Canada has kept its policy rate at 1.00% since September 2010 and we now expect this long pause to last at least another year.

3 Canada is obviously not immune to these global trends. One way this is having a concrete impact here is via massive capital inflows which not only contribute to lower government bond yields but also put significant upward pressure on the currency. An overvalued currency, in turn, contributes to a loss of international competitiveness and a persistent current account deficit. As the vicious cycle of low interest rates and persistent current account deficits intensifies, resources are misallocated resulting in overconsumption and underinvestment, trends that are unsustainable into the medium-term.

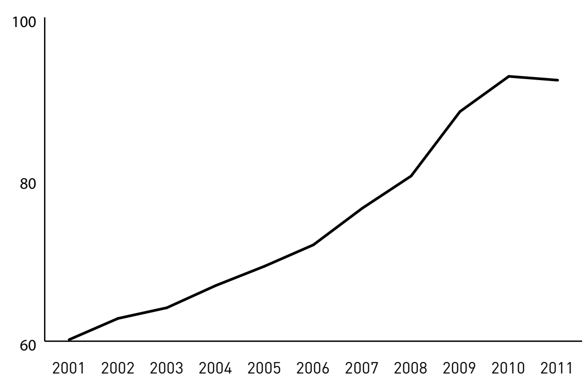
4 For these reasons, we expect 2013 to be a year of transition in Canada. Overall economic growth will likely slow to about 1.8% from an estimated rate of 2.1% in 2012, and accelerate moderately to 2.3% in 2014. Moreover, the composition of that growth should change considerably from the pattern of 2010-11-12: business investment and, eventually, net exports, will contribute more to growth while the contribution from the household sector will diminish. Such relatively weak growth rates will prevent the rate of unemployment from improving noticeably during 2013. It isn't until later in 2014 that we expect the rate of unemployment to ease towards 7.0% in both Canada and Quebec; currently, those rates stand at 7.4% and 7.7% respectively. Barring a major external macro-economic shock, however, we still do not expect the Canadian and Quebec economies to slide back into recession. The housing market will continue cooling in response to elevated levels of household debt and the tighter mortgage rules put in place over the past 18 months. As long as the rate of unemployment does not climb over 8.0%, however, this is not expected to be problematic.

UNEMPLOYMENT RATE
(in a percentage)



Source: Statistics Canada
(1) LBS Economic Research predictions

CANADIAN HOUSEHOLD INDEBTEDNESS
(debt to nominal GDP, in percentage)



Source: Statistics Canada