



Current Analysis

Current Analysis reports address current economic issues of importance to RBC Financial Group and its clients.

Provincial consumer sector comparisons

February 2005

With the high Canadian dollar eroding Canada's export competitiveness, growth in the consumer sector of the economy becomes even more important to the outlook for the Canadian economy. There are, however, significant regional differences in the degree of reliance on total consumer spending. Although very important to all provinces, PEI and Nova Scotia rely the most on consumer spending, while Alberta and Ontario rely the least.

There are even bigger differences in the recent performances of retail sales across the provinces. The western provinces have the fastest growth, with Alberta holding the number-one spot despite relying the least on the sector to power overall economic growth. The Atlantic provinces are experiencing the most weakness, while several are among the most dependent on this sector.

Across all provinces, weakness in vehicle sales growth was a significant restraint on overall retail spending for much of 2004, but sales are bouncing back in a number of markets.

Provincial profiles

British Columbia — Vehicle sales holding back overall retail sales

Weakness in new motor vehicle sales is holding back overall retail sales growth in British Columbia right now. Vehicle unit sales are down by 0.7% compared to a year ago, while the dollar value is up by only 2.3%. Total retail sales remain healthy and are 6.9% higher than a year ago after a sizeable rebound in the spring and summer months. Excluding new motor vehicle sales, core retail sales are up by 7.6% over a year ago. Labour market trends are supportive — there are 1.6% more jobs today than a year ago. The unemployment rate has dropped rapidly to 6.1%, which is the lowest unemployment rate since June 1981. Even at that, this is occurring against the backdrop of decent growth in the overall labour force.

Alberta — Fastest growing retail sales in the country

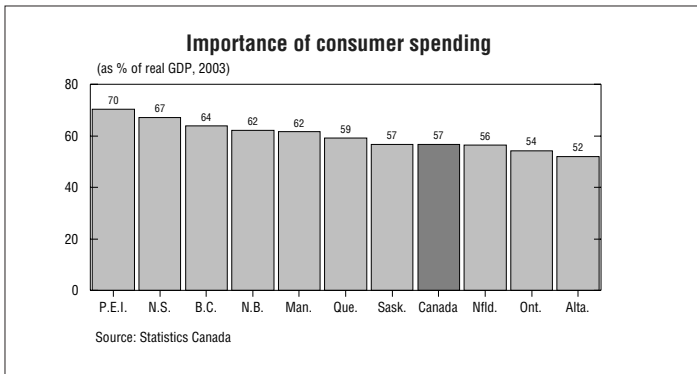
Alberta has the fastest growing retail sales in the country, but its economy is the least dependent on the retail trade sector. Alberta retailers saw total sales jump by 13.7% in November compared to the same month in 2003. It is also one of the few markets where new motor vehicle sales are now rising quickly. The dollar value of new motor vehicle sales is 11% higher than a year ago. Core retail sales are about 14.3% higher than a year ago. Job growth is not the only driver, although there are about 1.3% more jobs than a year ago and the province has the lowest unemployment rate in the country. Income growth is another powerful factor. Average weekly earnings are 3.8% higher than a year ago while CPI inflation stands at only 1.8%. Albertans are spending this strength while maintaining the strongest personal saving rate in the country.

Derek Holt

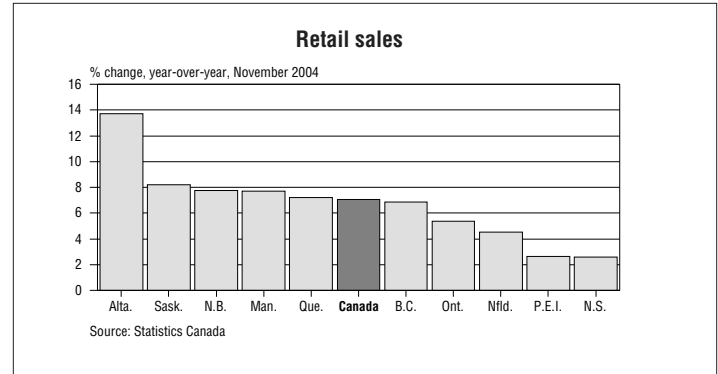
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Key provincial consumer sector comparisons

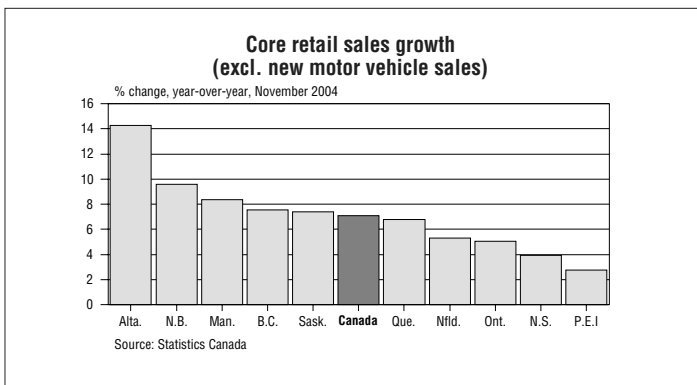
Least important to Alberta...



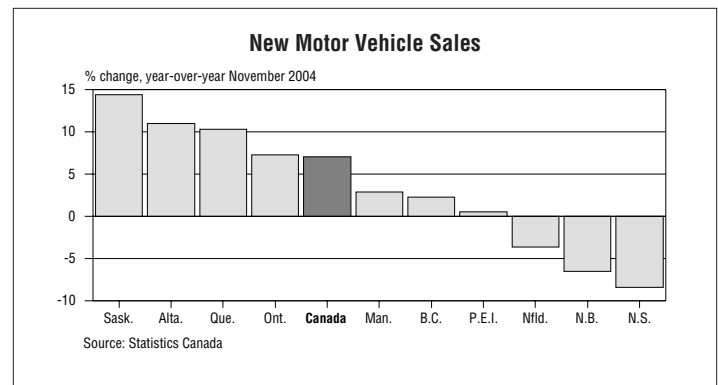
where retail sales are the strongest...



not just because of vehicle sales...



that are bouncing back in some markets.



Saskatchewan — Retail sector on the rebound

The province's retail sector appears to be on a rebound. After retail sales contracted sharply towards the end of 2003, they accelerated briefly in early 2004 until running flat through the spring and summer months. Now retail sales are growing at a rapid month-over-month clip are up by 8.2% over the same month a year ago and by 3.6% on a year-to-date basis over the previous year. Excluding a healthy rebound in vehicle sales that were previously on a downward trend, core retail sales are still up by 7.4% over year ago levels. Despite a 1% hike in the retail sales tax last spring, sales are being buoyed by strong employment growth with the total number of jobs up 2.3% compared to a year ago. This is occurring at the same time as relatively rapid growth in the labour force, which is 2.2% bigger than a year ago. Because job growth has been running roughly parallel to labour force growth, the overall unemployment rate has not improved materially and currently stands at 5.6%. A further plus is growth in average weekly earnings, which are 3.4% higher than a year ago.

Manitoba — Sector struggling to stay above national averages

Healthy retail sales growth in Manitoba is only modestly above national averages right now even when weakness in vehicle sales is excluded. Labour markets are a significant source of support. Total employment is 1.6% higher than year-ago levels; there were 1.6% more Manitobans who counted themselves in the labour force in this same period; and, the current unemployment rate stands at 5.1% — the second lowest in the country behind Alberta's 4.5%. Furthermore, income growth is supported by average weekly earnings that are a nation-leading 5.6% higher than a year ago. There are two knocks against Manitoba's performance relative to Alberta, however, in that its personal saving rate is much lower and inflation is considerably higher, with overall consumer prices sitting 3.4% above where they were a year ago.

Ontario — Second least reliant on consumer spending

Ontario is the second least reliant on consumer spending of all provincial economies behind Alberta. Retail sales in the province were not exactly running at a barn-burning pace over much of 2004, but that may be beginning to change. Total retail sales are now up by 5.4% compared to a year ago, a far sight better than growth of barely 1% back in the summer. Core retail sales are also growing slightly below the provincial average, but are only marginally weaker than total retail sales. The dollar value of new motor vehicle sales is significantly higher than a year ago, but flat in terms of the trend in recent months. Labour markets, however, are only mildly supportive. Job growth is running at a 1.4% annual pace, while the labour force is 1.4% larger than a year ago. As a result, the unemployment rate sits at 6.8%. Average weekly earnings currently stand at 0.6% compared to a year ago.

Quebec — Release of pent-up demand a key theme

Quebec comes the closest to reflecting the national characteristics of the retail trade sector. Not only is it close to the national average in terms of its dependence on consumers, it is also close to the national average on actual growth with or without new vehicles. The recent performance is quite strong, with sales up 7.2% over a year ago. This is a province, however, where earlier weakness in the dollar value of vehicle sales is now giving way to renewed strength. It is also a province that has relatively weak labour market supports in the form of total employment, which is 1.4% higher than a year ago, and average weekly earnings that are only 0.2% higher. The release of pent-up demand is a key theme.

New Brunswick — In middle of pack

New Brunswick is roughly middle of the pack in terms of its reliance on retail trade, but sales growth was hard to come by until recently. Retail sales are now up by 7.8% compared to a year ago, but the trend throughout the first half of 2004 was downward. Sales are significantly stronger excluding weakness in vehicle sales. The explanation for earlier weakness does not really lie within labour markets, since job growth is running at a 1.9% annual pace, the labour force is 1.7% bigger than a year ago, and the unemployment rate is now below 10%. Furthermore, average weekly earnings are up by 2.1% over year-ago levels. Consumers, it seems, were either well on their way to releasing pent-up demand or were being cautious with respect to expectations on how the economy would perform going forward.

Nova Scotia — Second most reliant on consumer spending

Nova Scotia's economy is the second most reliant on retail trade, but sales growth was weak over much of 2004. Total sales presently remain weak and are still weak even when falling new motor vehicle sales are excluded. This is not because of labour market weakness, with 1.4% more jobs, 1.6% more people in the labour force, and average weekly earnings that are 2.9% higher than a year ago.

Newfoundland — Weakness a concern

Retail trade matters less to Newfoundland's economy than it does to other Atlantic provinces, but weak conditions are still a concern. Jobs are up by 1.6% over a year ago, but the labour force is smaller such that this distorts the true meaning of a rapidly falling unemployment rate, which now stands at 15.3% (down a point from the spring). Average weekly earnings, however, are 4.2% higher than a year ago — the second fastest growth rate in the country.

Prince Edward Island — Retail trade highest share of provincial economy

Even though it accounts for only 0.4% of total Canadian retail sales, PEI's retail trade sector is a higher share of its economy than anywhere else. Unfortunately, it also stands tied for last place on growth. Labour market conditions are healthy, with job growth of 2.8% marred slightly by average weekly earnings growth of only 0.7%.