



Current Analysis

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

Measuring provincial economic performance

November 2004

Real gross domestic product estimates for 2003 were recently revised upward for most provinces. On balance, the highest growth rate among the provinces in 2003 was still Newfoundland and Labrador (6.8%), which also experienced strong growth in 2002 (16.7%). Much of this province's recent growth can be attributed to surging crude oil production from the Terra Nova oil field. Saskatchewan's economy recovered in 2003 after two years of contraction as growth came in at 4.5%, the second best provincial growth rate.

Real GDP — While real GDP growth is a useful indicator for measuring the economic performance of a province, it does not say much about the standard of living in each province. It is sometimes more instructive to look at real GDP per person, which tends to better illustrate the share of real economic activity available to residents of each province. The federal government uses this measure as a determining factor when characterizing “have” and “have not” provinces and the measure is also used to help determine equalization payments (i.e., the redistribution of income from the “have” to the “have-not” provinces).

GDP per capita — Using real GDP per capita, Alberta continues to have the highest standard of living among the provinces in 2003 at 118% of the Canadian average, while Ontario was in second place at 108% of the Canadian average. All other provinces were below the Canadian average, with Prince Edward Island having the lowest standard of living at 70% of the Canadian average in 2003.

However, using real GDP per capita as a measure of living standards does have some shortcomings. In particular, for resource-dependent provinces such as Alberta, Newfoundland, Saskatchewan and British Columbia the measure can be affected by the volatility of commodity production and prices. For example, subsequent royalties from resource production paid to provincial governments may not directly flow to residents if it is used for such things as debt repayment.

Real disposable income per capita — Another useful measure of standard of living is real disposable income per capita, which indicates the real after-tax income available to each resident of a province. Using this measure, both Alberta and Ontario continue to have a standard of living in excess of the Canadian average.

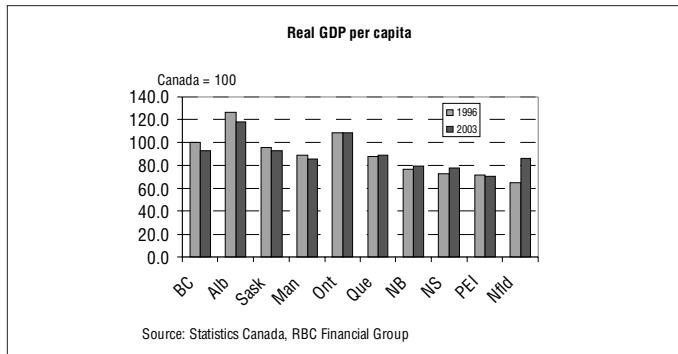
However, using this measure, the regional disparity between provinces becomes much smaller. This is especially true for the Atlantic provinces (except Newfoundland and Labrador) which collectively see a sharp improvement in their standards of living using a real disposable income per capita measure. The main reason for this is due to federal transfer payments, which help to redistribute income towards these provinces.

Carl Gomez

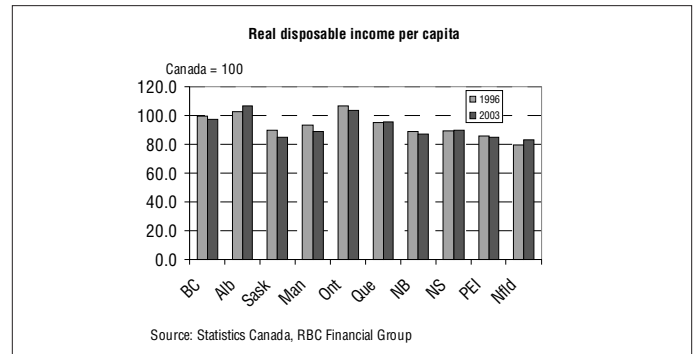
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Provincial standards of living

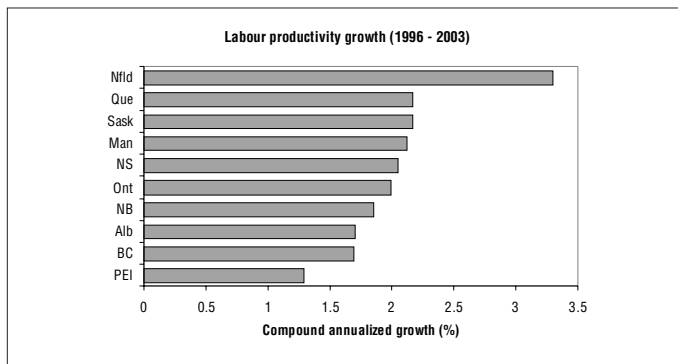
Growth of output per person



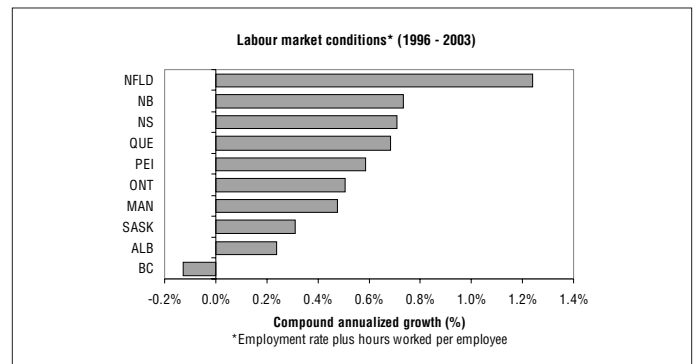
...and income per person



...are driven by productivity growth



...and solid labour market conditions.



The Atlantic provinces, with their generally higher unemployment rates, also see more federal transfers through employment insurance benefits compared to the other have-not provinces, particularly those in the Prairies, which tend to have lower unemployment rates.

Many provinces suffered deterioration in living standards

Regardless of which measure is used, since 1996 most provinces have either seen their standard of living stagnate or deteriorate compared to the Canadian average.

British Columbia and Saskatchewan have undergone the largest decline. In contrast, Newfoundland and Labrador, which has seen a sharp increase in real GDP per capita since 1996, has seen a strong improvement in its standard of living compared to the national average, albeit that improvement is more subdued on a real disposable income per capita basis.

One major reason for Newfoundland's improvement in its standard of living is that its burgeoning offshore energy program has helped to drive strong productivity growth that has ultimately helped to

close the standard of living gap between the province and the rest of the country. Improvements in labour market conditions, (the combined impact of an increase in the employment rate and hours worked) also play an important part in boosting living standards. On that score, Newfoundland has also done significantly better than most other provinces during the past seven years, while the western provinces, particularly British Columbia, saw weaker growth conditions.