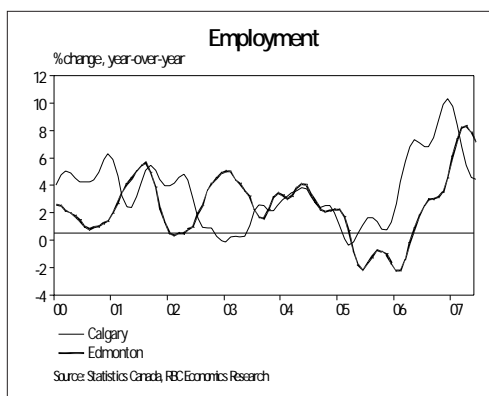
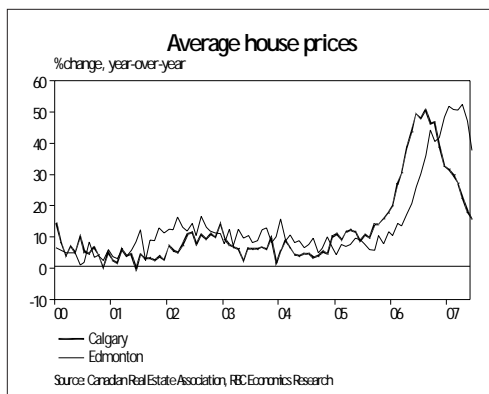
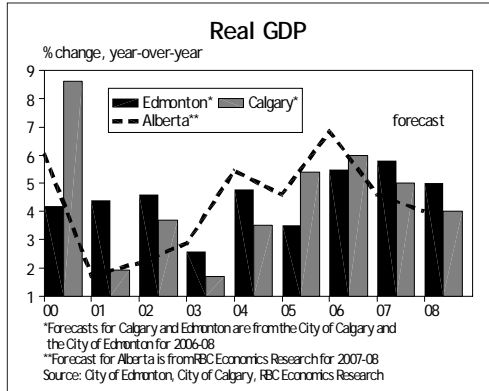


CALGARY'S GROWTH PEAKED IN 2006; EDMONTON TO TOP OUT THIS YEAR

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Amy Goldbloom
Economist
(416) 974-0579
amy.goldbloom@rbc.com

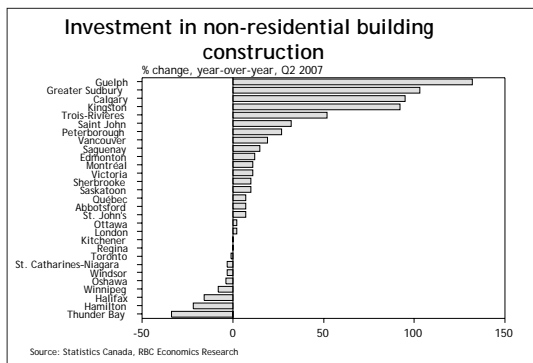
Calgary and Edmonton are leading the pace of economic activity in the 27 census metropolitan areas (CMAs) that we track, but recent forecasts are calling for growth to start cooling down. This lines up with our view and is supported by several recent indicators. Both economies quickly heated up alongside the start of the commodity boom in 2002. The spin-off effects have hit virtually all sectors of their local economies. The two cities have been tracking neck and neck for the top spots on growth across several key economic indicators. There has been an influx of migrants into the region in response to both the initial opportunities and the subsequent shortages that quickly sprouted up. Housing markets heated up aggressively, unemployment rates plummeted, and bankruptcy rates for both consumers and businesses dropped dramatically.

Historically, these economies move mostly in sync and guide the pace of activity for the province since together they account for roughly two-thirds of Alberta's GDP. The current cycle is not much different except that Edmonton is modestly lagging Calgary on a few fronts, including housing markets and job growth. This divergence in the past year has occurred because the acceleration in Calgary's economy is more advanced than in Edmonton's. Calgary has already started to show many signs that growth is topping out having reached saturation points across many key indicators in the latter half of 2006. Edmonton lagged Calgary through much of 2006 and spent the early months of 2007 catching up. Only in the past three months does it appear that Edmonton has reached its saturation growth points.

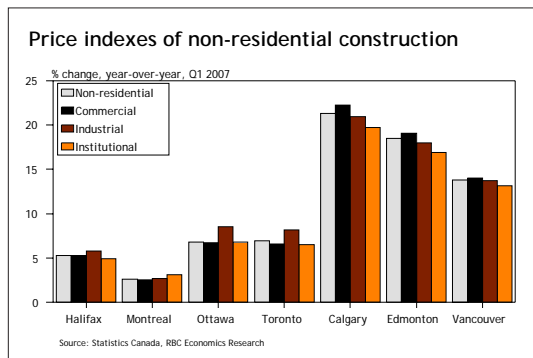
Alberta's housing markets are showing signs of topping. Sales-to-new listings ratios have come off their peaks with further moderation expected this year. Both Calgary and Edmonton are still elevated markets, but Calgary saw its peak growth in house prices late last year. Edmonton is only now coming off those peaks. This divergence showed up in our latest housing affordability calculations and was chiefly a result of the fact that Calgary is further along in terms of hefty price gains already booked. Although annual price gains are still robust in Calgary (up 15%-20%), they are growing at half the pace of Edmonton. House prices in Edmonton are still up roughly 40% on an annual basis but are on a moderating path. Job markets are another distinguishing factor between the two economies. Job growth in Calgary accelerated rapidly in 2006 but the pace has moderated over the last 7 months. The pace of job gains in Edmonton is only just beginning to come off its peaks.

Oil and natural gas prices are expected to remain elevated, supported by a healthy global outlook. The supports for energy prices should help keep growth running at a solid, but softer, pace in Edmonton and Calgary. Calgary's economic growth is expected to begin to decelerate this year with many indicators already pointing to a modest cool-down. Lagging just behind, Edmonton is likely to begin to see its economic growth wind down in 2008, with 2007 being its peak growth year.

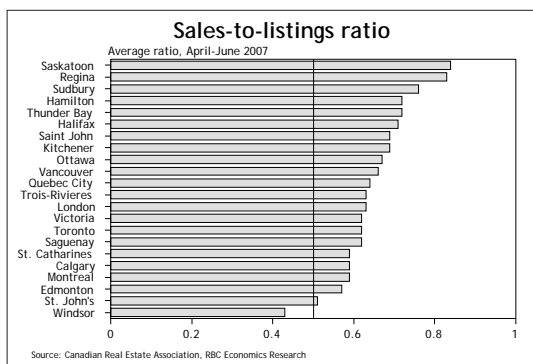
Strong demand for non-residential construction...



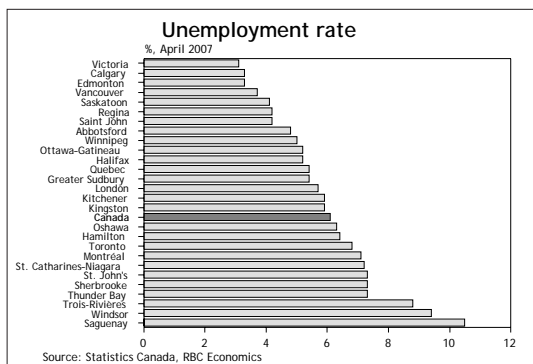
...exerts upward pressure on existing capacity and cost escalations.



Housing markets cool off except in Saskatchewan...



...but labour markets still remain tight.



City current indicators overview

Non-residential markets

▲ The value of non-residential permits rebounded sharply to a new record high in May. Permits for commercial projects accounted for the bulk of the increase and were 59% higher than in April. Permits for industrial and institutional projects also increased. Several large projects for new office space in the Calgary and Vancouver areas accounted for the surge.

▲ Roughly two-thirds of the CMAAs reported second-quarter gains in investment in non-residential building construction. The strongest gain was booked in Calgary where investment rose 17% to more than \$1 billion. Investment in Halifax fell sharply on the back of a big decline in all three components of construction — commercial, institutional, and industrial

▲ Capacity constraints, particularly in cities out west, continue to put upward pressure on non-residential construction costs. Calgary is tracking the highest rate of cost increases for all categories of non-residential construction, but particularly for commercial properties. The cost pressures in Ottawa and Toronto are the strongest for industrial properties.

Residential markets

▲ Significant regional variation in housing markets persists, but a nationwide theme points to continued moderation in housing markets — even in city markets throughout Alberta. The west is coming off extremely elevated growth rates, while central and eastern Canada have already moderated and are stabilizing at a healthy pace.

▲ Saskatoon and Regina are the notable exceptions to the nationwide cooling trend. In the past six months, house prices have soared and the housing market has jumped into a severe state of excess demand throughout Saskatchewan. An influx of migrants added immediate pressure on existing capacity and sent new and existing home prices soaring. Increased activity in the province's economy will support these markets, but the current pace of gains is expected to moderate.

▲ The annual pace of housing starts weakened across 25 CMAAs in the second quarter. We expect further weakening in residential construction activity to play out through the year. Saskatoon and Trois-Rivières were the only cities to break the trend of declines in residential construction activity.

Job markets

▲ Abbotsford, Edmonton, and Saskatoon reported the strongest job gains in June. Job growth in Abbotsford continued to accelerate, picking up from a 2.9% annual pace in the first quarter to 5.2% in the second. The pace of job growth in Saskatoon has started to cool from its robust first-quarter pace of 9% but still remains elevated thanks to an influx of migrants into the area.

▲ Aggregate job gains in central Canada are still healthy, supported by solid job growth in the service sector and the construction industry. But, manufacturers continue to aggressively shed jobs across many cities in Ontario and Quebec. Only three of the 16 CMAAs in central Canada managed to buck the declining manufacturing employment trend in the second quarter of 2007.

▲ Unemployment rates are stubbornly low across the western cities. Much of central Canada has started to see unemployment rates gradually inching upward from lows hit late in 2006. Trois-Rivières, Saguenay and Windsor have the highest unemployment rates among the CMAs.

▲ Job growth was mostly weak in Atlantic Canada with the exception of Saint John. Saint John's annual job growth was 5.5% in June with notable strength in the trade sector.

Inflation pressures

▲ Cost pressures in Edmonton and Calgary continue to be well above average in the 5-6% range. Cost pressures are still manageable in Saskatchewan, but are moving up in Saskatoon and Regina, largely through a feed-in from elevated housing markets.

▲ Headline inflation is averaging 2.2% in the 15 CMAs for which data are available — in line with the national all-items rate. Netting out Calgary and Edmonton, which continue to significantly skew the national inflation rate, all-items inflation is tracking at 1.7%.

Current economic indicators

Latest month available, year-over-year % change unless otherwise indicated

Cities are ranked in descending order by population size

Census metropolitan area	Job growth Jun-07	Jobless rate Jun-07	Res. permits ¹ May-07	Non-res. permits ¹ May-07	MLS prices Jun-07	MLS sales Jun-07	Housing starts Jun-07	Downtown office vac (%) Q1 2007	CPI Jun-07	Consumer bnkrpts ¹ Jun-07	Business bnkrpts ¹ Jun-07	Retail sales Apr-07
Toronto	1.8	6.9	-6.2	20.3	5.7	18.4	-34.9	7.9	1.7	4.3	-9.7	3.7
Montréal	3.0	6.2	2.5	43.8	5.0	20.1	37.7	11.2	1.6	8.3	0.0	3.1
Vancouver	2.1	4.4	27.6	9.7	12.2	3.6	29.9	3.1	1.9	-7.7	-28.8	8.1
Ottawa-Gatineau	-0.7	5.5	27.7	-34.8	7.9	3.0	38.4	6.0	1.7	7.8	-21.6	na
Calgary	4.7	3.2	2.5	119.6	15.7	-5.4	-43.9	1.5	6.2	-9.2	-23.9	na
Edmonton	6.3	3.8	23.0	29.5	37.7	4.0	-13.3	5.3	6.3	-24.5	-48.4	na
Quebec	-0.1	4.7	2.9	36.3	6.7	15.0	103.9	na	1.2	-1.9	5.7	na
Hamilton	0.0	6.1	46.8	167.4	9.4	19.4	11.7	na	na	13.9	14.3	na
Winnipeg	2.0	4.9	2.7	11.1	na	na	-7.2	na	2.0	-10.2	10.5	na
London	-2.3	5.8	3.2	7.6	6.0	0.8	26.2	na	na	16.9	-60.9	na
Kitchener	-1.4	5.7	-32.4	-20.1	7.7	28.7	-27.6	na	na	16.7	na	na
St. Catharines-Niagara	1.3	6.1	-16.5	-13.0	4.2	10.0	-3.8	na	na	0.0	4.5	na
Halifax	0.0	5.9	-0.8	3.3	9.8	23.5	44.1	6.0	2.0	0.0	31.8	na
Windsor	-3.4	9.4	-35.9	-34.4	-1.4	3.4	-68.5	na	na	20.6	-31.8	na
Victoria	4.9	3.1	83.3	31.9	7.1	21.8	3.0	2.9	0.8	13.8	-20.0	na
Oshawa	2.1	5.6	-8.1	-4.4	na	na	4.7	na	na	-9.6	-30.8	na
Saskatoon	5.5	4.5	129.2	-14.0	51.5	25.8	88.4	7.5	3.7	-18.7	-43.3	na
Regina	1.3	4.9	-2.3	-10.7	25.9	35.4	39.8	3.3	2.7	1.9	-23.5	na
St. John's	1.4	7.4	1.7	18.3	12.5	14.6	-4.3	na	1.3	3.2	233.3	na
Sherbrooke	2.8	5.7	15.4	-47.4	-3.5	-5.5	-61.2	na	na	-25.1	25.0	na
Greater Sudbury	4.1	5.8	75.3	-27.5	28.8	2.7	10.8	na	na	0.0	na	na
Abbotsford	7.0	4.3	3.0	-77.9	na	na	139.5	na	na	na	na	na
Kingston	1.6	5.2	-4.9	-23.6	5.5*	4.8*	-9.0	na	na	9.3	0.0	na
Saguenay	-0.1	8.4	36.2	-49.6	20.9	na	5.1	na	na	na	na	na
Trois-Rivières	5.3	7.5	26.8	153.8	9.5	0.0	81.7	na	na	-13.2	-36.4	na
Saint John	5.5	5.2	0.3	295.1	5.8	45.1	-31.8	na	1.9	19.1	-50.0	na
Thunder Bay	1.4	6.9	109.6	114.5	-4.3	36.2	106.3	na	0.7	23.0	55.6	na
Canada	2.0	6.1	12.1	23.1	9.9*	10.3*	-4.9	na	2.3	6.5*	-16.5*	4.8

*as of May 2007

¹ Three-month trend

Source: Statistics Canada, Industry Canada, Canada Mortgage and Housing Corporation, Colliers International, Canadian Real Estate Association

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