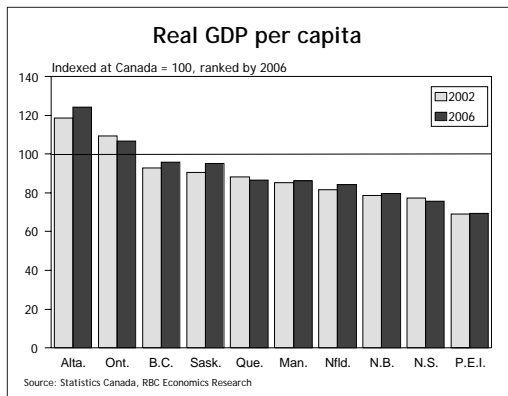
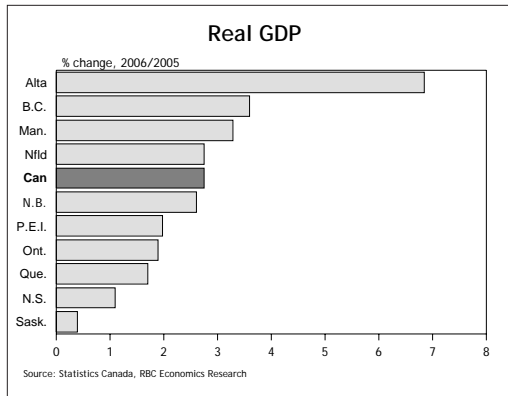


PROVINCIAL CURRENT TRENDS

July 2007



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Provincial forecast report:
www.rbc.com/economics/market/pdf/provfcst.pdf

Measuring provincial economic performance

Real GDP per capita is a widely used measure to gauge overall economic well-being. There are many drawbacks to this measure — including its inability to address income distribution within a given population — but it does provide insight about the share of real economic activity available to residents of each province. Two major developments in the Canadian economy include the strength in commodity prices and the appreciation of the Canadian dollar. To measure what has happened to living standards during the current commodity price cycle, we analyze the cumulative change in real GDP per capita across provinces from 2002 (the start of the cycle) to 2006. To get at some, but not all, of the shortcomings of the GDP measure, we look at trends in disposable income gains to estimate roughly how much of the gains have filtered into actual wage improvements net of taxes and transfers.

Statistics Canada’s preliminary real GDP estimates for 2006 confirmed the significant divergence of growth patterns among provinces. The strength of the Canadian dollar and elevated commodity prices continued to reinforce growth in the resource-based provinces while restraining growth in the non-resource provinces. It is no surprise that Alberta topped the growth charts last year, booking a 6.8% increase in real growth — more than twice the national rate — and maintaining its lead for a third consecutive year. The only other provinces to best the 2006 national growth rate of 2.8% were British Columbia (3.6%), Manitoba (3.3%) and Newfoundland (2.8%). Central Canada and the remainder of the Atlantic region (excluding Newfoundland) hovered closer to the 2% range.

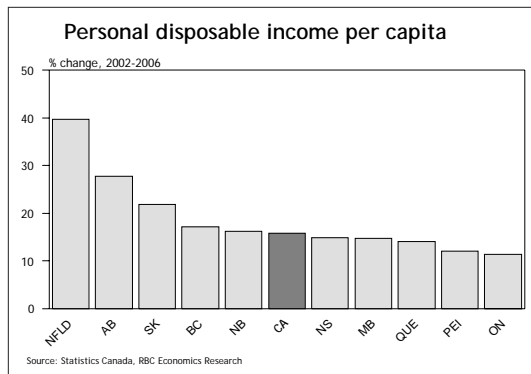
Real GDP per capita

From 2002 to 2006, real GDP per capita in the key resource provinces — Alberta, British Columbia, Saskatchewan and Newfoundland — jumped significantly compared to the national average, while growth was slower than the national average in Ontario, Nova Scotia and Quebec and hovered close to the national average in Manitoba, New Brunswick and Prince Edward Island. The per capita improvements in Alberta are notable because GDP growth was powerful enough to offset even the rapid increase in population in this period. In 2002, Alberta and Ontario were the only provinces with GDP per capita above the national level. In 2006, these “have” provinces still maintained their lead in terms of GDP per capita levels. However, a sluggish Ontario economy caused it to lose some of its lead, while a red-hot Alberta economy increased its lead.

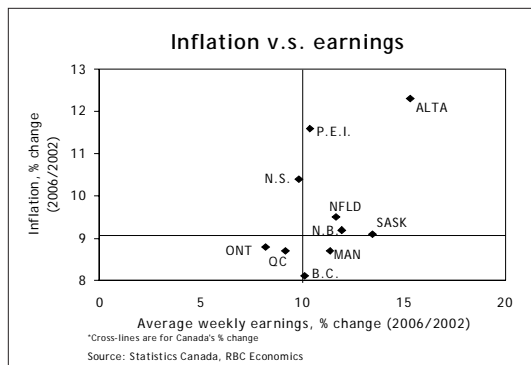
Income per capita

Another useful measure for assessing standards of living is income per capita. Newfoundland emerges as the clear upside outlier. Most of the gains in personal disposable income in Newfoundland were accrued in 2006 alongside a surge in oil prices and a ramp-up in production at major products, but the picture is skewed by two factors. First, much of the income from production has only modest trickle-down effects into the local economy and is concentrated in only a small segment of

Resource provinces lead on income gains...



...but non-resource provinces ward off upward inflation pressures.



Provincial scorecard

1 = highest growth rate, 10 = lowest growth rate
(12-month moving average)

Jobs (June) Retail sales (April) Housing starts (June) Mfg. ship. (May) Wholesale trade (May) CPI (June)

Nfld.	4	5	6	4	2	10
P.E.I.	8	8	10	1	10	7
N.S.	10	9	9	9	7	5
N.B.	9	6	7	10	8	4
Que.	5	7	4	5	9	9
Ont.	6	10	8	8	6	6
Man.	7	4	3	2	4	3
Sask.	2	2	1	7	1	2
Alta.	1	1	2	3	3	1
B.C.	3	3	5	6	5	8

Source: RBC Economics Research

the population. Second, the province receives a higher than average share of income from federal government transfers. Apart from Alberta and Saskatchewan, the remaining provinces had comparable gains in personal disposable income. Ontario is the laggard because of the challenges facing its economy in the last few years that have restrained its ability to make real economic improvements — the major appreciation in the dollar, a near tripling of oil prices in the current cycle, and competition from China and other Asian counterparts. However, a tame inflation environment in Ontario and across much of central and eastern Canada has helped prevent a deterioration in real wage gains.

Provincial current trends



British Columbia — Investment in non-residential construction remains a strength for the province. While institutional investment declined 4%, investment in the industrial sector rose 18% in the second quarter. Non-residential permits are still signalling more strength ahead. Manufacturing shipments are down so far this year compared to last as headwinds continue to challenge the industry.



Alberta — The unemployment rate edged up from record lows in late 2006, but is still tracking below 4% — the lowest rate among the provinces. Inflation has become the chief concern as the consumer price index soared to 6.3% in June, outstripping the pace of average weekly earnings. A rising cost environment for both residential and non-residential projects is expected to help cool off the pace of construction activity. The consumer is still strong but tamer than in 2006. Annual growth in retail sales is tracking at 11% this year compared to the 16% pace booked in 2006.



Saskatchewan — A sharp swing in recent net migration to the province has contributed to a significant pick-up in economic activity, particularly in the housing sector. House prices are up sharply and resale activity is elevated. In reaction to existing capacity shortages, housing starts are rising and are up nearly 70% so far this year compared to a year ago. Inflation is edging up and reached 3.2% in June — the second highest rate in the country



Manitoba — Manufacturing has been a source of strength for the province with double-digit year-over-year growth in shipments for the past four consecutive months. Wholesale trade is also holding up, tracking at a healthy annual 8% pace in the first five months of the year. Tight labour markets are reinforcing solid wage gains with earnings up 4.5% year-over-year in April.



Ontario — Manufacturing weakness remains the sore point for the province. Manufacturers continue to shed jobs in reaction to a very challenging and competitive business climate. Despite strength in various service industries, Ontario's employment growth for the first half of 2007 continues to lag behind the national average. Housing, however, remains a support, with prices now consistently growing at a healthy 5% year-over-year pace and resale activity still elevated.



Quebec — Labour markets have tightened significantly through the first half of 2007. Employment in the province increased by roughly 22,000 jobs in June, pushing the unemployment rate down

to 6.9% — the lowest on record. The biggest gains are occurring in the accommodation and food services, trade and construction sectors. Manufacturing, although weak, is holding up better than in neighbouring Ontario. Retail sales are tracking at a healthy pace and will get a lift from the recent pay-equity settlements.



New Brunswick — The manufacturing sector remains under significant downward pressure and is leading the pace of declines in shipments among all the provinces. Wholesale trade dropped 2% in June but is still holding up on a year-over-year basis. Labour markets tightened up in June with 4000 new jobs created, bringing the unemployment rate for the province to a 33-year low of 6.8%.



Nova Scotia — Similar to much of the rest of central and eastern Canada, manufacturing remains a weak spot for the province, with shipments down for a second consecutive month. Investment in non-residential building construction dropped 11% in the second quarter on the back of significant declines in commercial property investment.

Housing markets are also cooling off this year after a strong run through much of 2006.



Prince Edward Island — The manufacturing sector remains healthy despite a modest softening in May's shipments. Wholesale trade is also holding up well. Residential markets continue to soften, with prices dropping roughly \$5000 in May over April. However, house prices are still up 5% so far this year. Retail sales are growing at a robust 8% pace, supported by solid growth in average weekly earnings.



Newfoundland/Labrador — In the span of just over a year, the unemployment rate has dropped from 15% down to roughly 13% in June. The lower rate, however, has been driven more by a declining labour force rather than from significant job gains. The province experienced a significant outflow of migrants to other provinces in the first quarter of 2007. More than 50% of the migrants leaving the province are still heading west to Alberta. Manufacturing and wholesale trade have been growing at a healthy clip since the start of the year.

Provincial current economic indicators

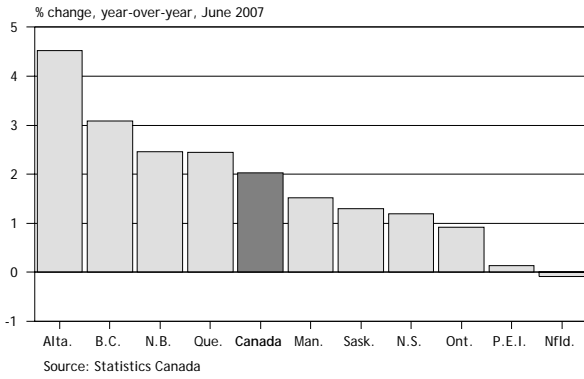
Latest month available, year-over-year % change, not seasonally adjusted unless marked S.A.

		Canada	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Labour market												
Employment	Jun-07	2.0	-0.1	0.1	1.2	2.5	2.5	0.9	1.5	1.3	4.5	3.1
Labour force	Jun-07	2.0	-1.8	0.3	1.3	1.0	1.2	1.5	2.5	1.0	4.7	3.3
Unemployment rate (% level, S.A.)	Jun-07	6.1	13.1	10.5	8.1	6.8	6.9	6.5	4.8	4.4	3.8	4.4
Average weekly earnings	May-07	2.9	2.8	5.7	3.3	4.0	4.5	2.4	4.2	2.2	3.2	1.1
Consumers and business												
Retail sales	May-07	10.1	12.1	6.6	5.3	8.0	11.2	8.2	11.4	13.7	14.0	9.2
Retal sales excl. new motor vehicles	May-07	10.9	9.6	6.0	7.0	7.2	10.9	9.8	13.4	12.6	16.4	9.3
New motor vehicle sales	May-07	5.7	27.3	11.6	-4.2	13.1	13.0	0.2	-1.5	21.7	3.3	9.2
Wholesale trade	May-07	4.2	10.7	-3.8	1.2	5.4	6.9	3.8	7.3	15.8	-1.7	3.9
Housing starts (S.A.)	Jun-07	-4.9	4.3	14.3	12.2	-27.8	19.6	-22.3	-10.5	87.5	-16.1	11.0
Existing home sales	May-07	11.0	27.1	3.7	10.0	6.6	15.6	15.1	8.6	41.8	3.7	3.0
Residential building permits (S.A.)	May-07	10.2	13.0	10.7	-14.1	-13.5	10.1	-8.4	29.7	86.9	17.5	54.8
Non-residential building permits (S.A.)	May-07	43.2	-12.8	-53.0	-5.2	162.0	32.6	3.2	23.2	-23.0	154.5	-2.4
Manufacturing shipments	May-07	1.8	26.5	7.4	-5.9	-18.5	5.5	-0.1	14.5	-4.1	7.6	-0.1
Business bankruptcies	May-07	-16.5	66.7	-75.0	38.5	-31.6	-0.6	-15.8	-14.3	-65.6	-32.9	-27.6
Consumer bankruptcies	May-07	6.5	13.5	26.3	-6.0	22.6	7.8	13.2	-13.0	-3.9	-12.0	-4.1
Domestic trade												
Merchandise exports (S.A.)	May-07	7.4	14.8	4.7	-6.2	15.0	9.0	5.8	29.1	0.0	12.0	1.5
Merchandise imports (S.A.)	May-07	1.6	-36.7	81.8	-29.4	41.3	-0.6	5.2	17.4	11.5	-2.2	-13.4
Inflation												
CPI	Jun-07	2.2	1.4	1.6	1.8	1.9	1.5	1.6	2.2	3.2	6.3	1.5
CPI ex. food and energy	Jun-07	2.2	0.9	1.6	2.5	1.1	1.2	1.9	1.7	3.0	5.4	1.4
CPI ex. Shelter	Jun-07	1.7	1.3	1.7	2.2	1.2	1.1	1.9	1.7	1.4	2.8	1.4

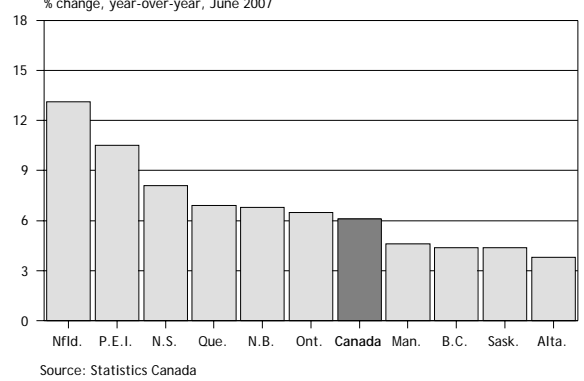
Source: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, RBC Economics Research

Provincial trends overview

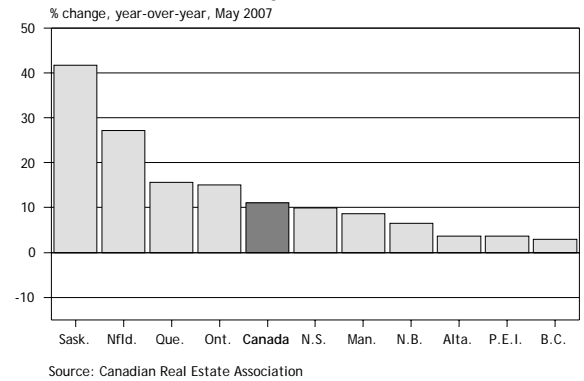
Employment



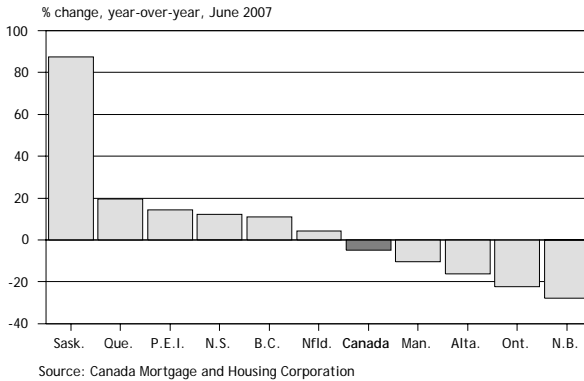
Unemployment rate



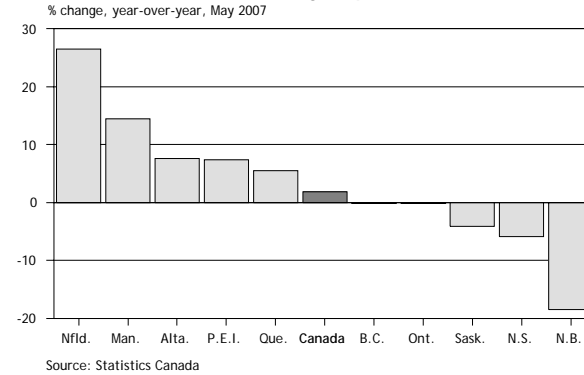
Existing home sales



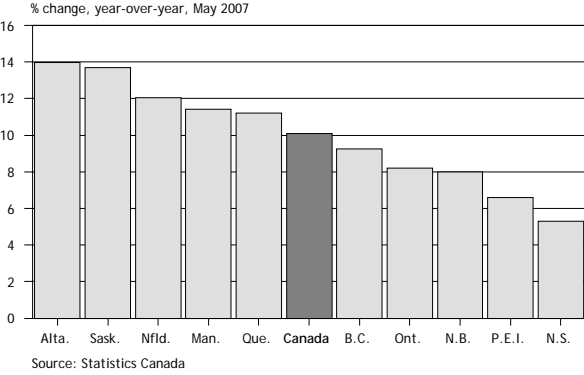
Housing starts (urban)



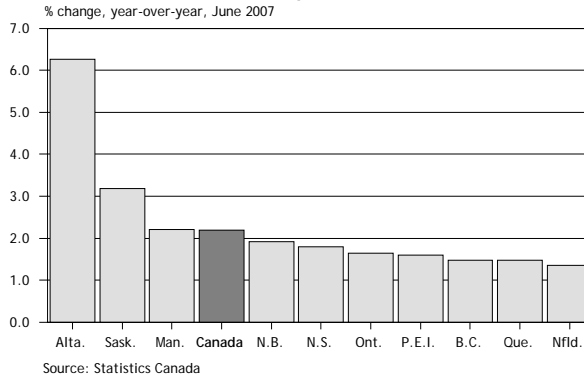
Manufacturing shipments



Retail sales



Consumer price index



Wholesale trade

