



NEWS

CANADA'S ECONOMY TO MODESTLY OUTPERFORM THE U.S.: RBC ECONOMICS

TORONTO, April 3, 2008 — Canada's economy is expected to grow by 1.6 per cent in 2008, down from 2.7 per cent in 2007, as a result of strain from a slowing trade sector, unfavourable financial markets and a weak U.S. economy, according to the latest economic forecast from RBC.

"Rising demand for imports will continue to outstrip export growth in 2008 and we anticipate the trade sector will trim 3.6 per cent from the 2008 annual GDP growth rate," said Craig Wright, senior vice-president and chief economist, RBC. "The drag from the trade sector on near-term growth, combined with limited inflationary pressures, will keep the Bank of Canada on its current path of lowering interest rates."

The Bank of Canada cut the overnight rate at each of its fixed action dates in December, January and March to mitigate the downside risks from the widening in credit spreads and weakening U.S. economy. Continuing concerns about the downside risks to growth are expected to send this policy rate down to 2.75 per cent by mid 2008.

RBC expects the drag from the trade sector in 2008 to be offset by Canada's strong terms of trade, continuing job growth and rising wages. These factors are expected to help buoy consumer spending through the year. However, household balance sheets could experience some downside risk as a result of high debt service costs relative to disposable income and the deterioration of equity markets.

The report also noted that the rise in Canadian house prices has stretched affordability to conditions not seen since 1990. Canadian homeowners should see a modest improvement in affordability throughout 2008, as the Bank of Canada is expected to continue lowering interest rates and the pace of house price increases should slow.

The U.S. economy is expected to grow at a rate of 1.2 per cent in 2008 as a result of continued deterioration in U.S. housing and financial markets. The report projects flat to negative growth in the first half of the year, with activity bouncing back by the second half of 2008. Gains will be concentrated in the third quarter as the government's fiscal stimulus package boosts consumer spending and sends overall GDP up to an annualized 2.9 per cent. An expected easing in credit conditions will also allow for stronger growth in 2009 as the economy is forecast to expand by 2.0 per cent.

The U.S. Federal Reserve is expected to stave off downside risks to its economic outlook by cutting the Fed funds rate to 1.5 per cent by June. After adjusting for inflation, the real policy rate will sit below zero, which has historically been enough of a stimulant to revive a faltering economy, noted Wright.

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The growth gap between the commodity-rich Western provinces and manufacturing-heavy Central Canada is expected to persist in 2008. Across Canada, Saskatchewan is expected to be the top growth performer this year as its economy benefits from strength in energy, mining, and agriculture sectors. Conversely, Newfoundland and Labrador should be the laggard as waning oil production weighs on its growth. The strong Canadian dollar and softer U.S. demand for exports continue to weaken manufacturing sectors across the country. Ontario's weak trade sector will see the province teeter on the brink of recession through 2008, but it should pick-up in 2009 to coincide with a recovering U.S. economy.

The RBC Economics *Provincial Outlook* assesses the provinces according to economic growth, employment growth, unemployment rates, personal income growth, retail sales, housing starts, and the Consumer Price Index.

According to the report (available online as of 8 a.m. E.D.T., at www.rbc.com/economics/market/pdf/fcst.pdf), provincial forecast details are as follows:

	Real GDP			Housing starts			Retail sales			Employment			CPI		
	07	08	09	07	08	09	07	08	09	07	08	09	07	08	09
	Thousands														
NFLD.	9.0	0.5	1.0	2.6	2.5	2.0	9.5	5.5	2.0	0.6	0.2	0.3	1.5	1.0	1.3
P.E.I.	1.9	1.2	1.4	0.8	0.7	0.6	8.2	4.4	3.7	1.0	0.5	0.2	1.8	1.3	1.6
N.S.	2.4	2.5	2.8	4.8	4.6	4.0	4.0	4.7	6.5	1.3	2.0	2.0	1.9	1.1	2.0
N.B.	2.5	2.4	2.5	4.2	4.0	3.4	6.2	4.4	4.0	2.1	1.9	0.9	1.9	1.2	1.7
QUE.	2.1	1.1	2.2	48.6	47.1	40.0	4.4	4.1	4.4	2.3	1.1	1.1	1.6	1.2	1.8
ONT.	1.8	0.8	1.9	68.1	66.8	59.4	3.9	3.8	4.5	1.6	0.9	1.0	1.8	1.4	1.8
MAN.	3.5	2.8	2.9	5.7	5.6	4.5	9.5	8.1	7.6	1.6	2.1	1.7	2.0	1.8	2.1
SASK.	4.6	3.6	3.2	6.0	6.1	4.5	12.7	9.0	8.0	2.1	2.4	1.9	2.8	3.3	2.9
ALTA.	4.3	3.3	3.0	48.3	41.6	35.3	9.0	7.4	7.0	4.7	2.2	1.8	5.0	2.9	2.8
B.C.	3.1	2.3	2.8	39.2	37.2	30.5	7.1	6.2	7.5	3.2	2.0	2.2	1.8	1.1	1.6
CANADA	2.7	1.6	2.3	228	216	184	5.8	5.1	5.5	2.3	1.4	1.4	2.1	1.4	1.9

For more information, please contact:

Craig Wright, RBC Economics, (416) 974-7457

Paul Ferley, RBC Economics, (416) 974-7231

Amy Goldbloom, RBC Economics, (416) 974-0579

Jackie Braden, RBC Media Relations, (416) 974-2124