



NEWS

ALBERTA'S ECONOMY IS RUNNING INTO CAPACITY CONSTRAINTS, SAYS RBC

TORONTO, July 3, 2008 — Resource and price constraints are limiting Alberta's economic growth for 2008 and 2009, keeping it within the three per cent range, or just slightly slower than in 2007, according to the latest provincial forecast released today by RBC.

"The province's economy has cooled considerably from its boiling point in 2006, with economic growth cut in half in 2007," said Craig Wright, senior vice-president and chief economist, RBC. "While strength in the energy sector and rising incomes are helping to drive the economy, we are seeing mounting price pressures starting to slow consumer spending and restrain overall growth."

The report points to Alberta's housing market as a prime example of the cooling of the economy. Significant house price increases over the past two years have led to substantial erosion in affordability, and now the province is experiencing declines in both resale and new home construction activity. A higher cost of living is not only putting pressure on consumer spending but also contributing to a dramatic swing in interprovincial migration, as the province is witnessing its first net outflow in almost 15 years.

Provincial government spending, which has grown by an average of 11 per cent over the past five years, is projected to decline sharply over the next two years. While the most recent budget projects a sharp slowing over the next two fiscal years, recent experience suggests significant upside risks. Any spending beyond budget plans would further press the economy against capacity constraints and fuel inflation. "The Alberta government would be wise to stay the line on spending and adopt policies to subdue inflation in order to support the competitiveness of the economy," noted Wright.

The main theme of the RBC Provincial Outlook continues to be the different paths the Eastern and Western parts of the country are taking. Record-high commodity prices and strong global demand for resources sustain unprecedented prosperity in the Western provinces, while the strong Canadian dollar, downturn in the U.S. economy and high energy prices continue to cause hardship in key sectors in provinces east of Manitoba. Saskatchewan is projected to lead all of the provinces in economic growth for both 2008 and 2009, followed by Alberta, while Newfoundland and Labrador and Ontario are expected to lag the group this year, but should show some improvement next year.

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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/provfcst.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.	9.1	0.2	1.3	2.6	2.6	2.0	8.9	6.0	2.0	0.6	2.0	0.5	1.5	2.5	1.4
P.E.I.	2.0	1.2	1.6	0.8	0.7	0.6	7.7	4.5	3.7	1.0	1.3	0.3	1.8	3.2	1.5
N.S.	1.6	2.0	2.4	4.8	4.7	4.0	4.2	5.5	4.5	1.3	1.0	1.9	1.9	3.0	1.6
N.B.	1.6	2.0	2.5	4.2	4.2	3.4	5.7	4.6	4.0	2.1	1.6	1.0	1.9	1.8	1.5
QUE.	2.4	1.0	2.3	48.6	47.1	40.0	4.6	4.3	4.4	2.3	1.4	1.3	1.6	2.2	1.4
ONT.	2.1	0.7	2.2	68.1	68.7	59.3	3.9	4.4	4.5	1.6	1.5	1.3	1.8	2.0	1.5
MAN.	3.3	2.7	2.7	5.7	5.9	4.5	8.8	8.5	7.0	1.6	2.1	1.7	2.0	2.0	1.5
SASK.	2.8	3.7	3.8	6.0	6.6	4.5	13.0	12.0	11.0	2.1	2.4	2.3	2.8	3.4	2.6
ALTA.	3.3	3.1	3.0	48.3	38.3	35.1	9.3	4.5	7.0	4.7	3.0	2.1	5.0	3.3	2.5
B.C.	3.1	2.2	2.9	39.2	37.2	30.5	6.7	4.5	7.5	3.2	2.6	2.5	1.8	2.0	1.5
CANADA	2.7	1.4	2.5	228	216	184	5.8	5.2	5.6	2.3	1.9	1.6	2.1	2.3	1.6

For more information, please contact:

Craig Wright, RBC Economics, (416) 974-7457
 Robert Hogue, RBC Economics, (416) 974-6192
 Jackie Braden, RBC Media Relations, (416) 974-2124