



NEWS

COOLING HOUSING MARKET DEFLATES ALBERTA'S ECONOMY, SAYS RBC

TORONTO, October 8, 2008 — According to the latest provincial forecast released today by RBC, Alberta's economy will continue to shift down a few gears for the rest of 2008, but is expected to pick up the pace in 2009.

"We have reduced Alberta's economic growth rate for 2008 to 1.9 per cent, down from 3.1 per cent as previously forecast," said Craig Wright, senior vice-president and chief economist, RBC. "A combination of continued cooling in the province's housing market, stagnating consumer spending and slower growth in the non-residential construction sector have led to a weaker economic outlook for the rest of 2008."

Following years of significant investment in the energy sector which helped bolster activity in most other sectors, Alberta's economy has started to slow. This is most evident in the housing market where sales of existing homes have decreased considerably since their 2007 peak. Prices are now reversing some of the spectacular gains of recent years. With the easing of earlier shortages and plenty of new supply coming to the market, housing starts have plummeted since the first quarter of 2008.

Another sign of a slowdown is weaker growth in consumer spending. Retail sales are stagnating after averaging 12 per cent annual increases over the past three years. According to the report, consumer confidence is no longer sky-high as residents shun big ticket items such as motor vehicles. While non-residential construction activity remains elevated, growth has slowed considerably this year.

On a more positive note, net migration into Alberta has improved recently and is likely to quicken demand for housing and consumer spending in the period ahead. This migration jump might also help reduce bottlenecks at major construction projects and promote growth in capital spending, noted Wright.

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The outlook for provinces has generally darkened as a result of the recent dramatic turn in the year-long financial market crisis. The U.S. economy now appears to be in recession with Europe, the U.K. and Japan also sinking fast. While Canada is in better position with its financial sector less heavily impaired, overall growth will be substantially weaker than previously anticipated.

Among the provinces, Saskatchewan will lead the way this year and next in terms of economic growth, with Manitoba closely behind. The Atlantic region is expected to display continued resilience and should sustain a moderate pace of expansion for the most part. Conditions in the most western part of the country are on a deteriorating path. Eroding housing situations and rapidly slowing growth in consumer spending have prompted downward revisions to the forecasts for British Columbia and Alberta. With weak external trade continuing to exert a toll, cracks have appeared in the domestic foundations of Ontario and Quebec. Ontario will likely see its growth evaporate.

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		
	<u>07</u>	<u>08</u>	<u>09</u>	Thousands						<u>07</u>	<u>08</u>	<u>09</u>	<u>07</u>	<u>08</u>	<u>09</u>
NFLD.	9.1	0.2	1.3	2.6	2.8	3.0	9.0	8.0	4.0	0.7	2.0	0.6	1.4	3.1	2.1
P.E.I.	2.0	1.9	1.4	0.8	0.7	0.5	7.7	5.5	3.5	1.1	1.7	0.5	1.8	3.8	2.4
N.S.	1.6	2.0	2.0	4.8	4.2	3.2	4.2	5.5	4.0	1.3	1.1	0.9	1.9	3.6	2.3
N.B.	1.6	2.0	2.5	4.2	4.1	3.3	5.7	5.5	4.0	2.1	0.9	0.9	1.9	2.2	2.1
QUE.	2.4	0.7	1.2	48.6	45.7	39.0	4.6	5.5	3.5	2.3	0.8	1.1	1.6	2.5	2.0
ONT.	2.1	0.0	0.4	68.1	75.0	66.5	3.9	5.0	2.8	1.6	1.5	1.2	1.8	2.6	2.0
MAN.	3.3	3.1	2.3	5.7	5.4	5.4	8.8	8.0	5.5	1.6	1.8	1.5	2.1	2.5	2.6
SASK.	2.8	3.9	3.5	6.0	6.8	5.3	13.0	12.0	7.5	2.1	1.6	2.0	2.9	3.4	2.7
ALTA.	3.3	2.2	3.0	48.3	30.2	31.3	9.3	1.5	6.5	4.7	2.6	2.1	4.9	3.7	2.9
B.C.	3.1	1.2	2.1	39.2	34.8	26.0	6.7	3.0	6.5	3.2	2.4	1.4	1.7	2.5	2.0
CANADA	2.7	0.9	1.5	228	209	183	5.8	4.7	4.3	2.3	1.6	1.3	2.1	2.7	2.2

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