



ATLANTIC CANADA RIDING OUT RECESSION WITH GOVERNMENT STIMULUS AND CAPITAL SPENDING SUPPORT: RBC ECONOMICS

TORONTO, June 15, 2009 — Fiscal stimulus by Canada's federal and provincial governments will set the course towards an eventual economic recovery, according to the latest RBC Economics provincial forecast. The report indicates that, although most of the economies in the Atlantic region of Canada are forecasted to contract this year, a recovery is in sight.

"The most recent budget season almost universally brought significant measures to stimulate provincial economies, primarily in the form of increased spending on public infrastructures but also, in some cases, tax cuts and other fiscal incentives," said Craig Wright, senior vice-president and chief economist, RBC. "By the time fiscal stimulus is in full swing next year, we anticipate that the U.S. economy will be in recovery mode and commodity markets on a stronger footing, setting the stage for a generalized recovery across the country."

The RBC report forecasts that Nova Scotia will be one of only three provinces to post growth in its economy in 2009 – the other two will be Saskatchewan and Manitoba. While Nova Scotia's gain in real GDP will be a minimal 0.2 per cent, this is in stark contrast to the 2.4 per cent decline expected nationally. Strength in spending on capital projects, including infrastructure investment, partnered with the anticipated rebound in growth – both nationally and in the U.S. – with attendant recovery in commodity prices, should send Nova Scotia's growth rate back up to 2.5 per cent in 2010.

In Newfoundland and Labrador, the economic forecast has been revised downward, due largely to a sharp downswing in resource production in 2009. The RBC report now projects real GDP growth of -3.5 per cent this year. However, strong capital investment spending, including expenditures on public infrastructure, under the provincial government's stimulus plan, will help ease what could be a much more severe contraction.

Canada's smallest province is awaiting the peak travel season with some degree of apprehension this year, as the tough economic environment threatens to drag down tourism. The surge in value of the Canadian dollar just as traveling plans are being established will add downside risks to Prince Edward Island, the prospects of which are already being eroded by the steady rise in its jobless rate since last summer to a seven-

year high in May. On the bright side, the province's exports have been rising, largely thanks to strong growth in the aerospace industry – a PEI success story. Nonetheless, recessionary forces will likely cause a decline in Prince Edward Island's real GDP of 1.8 per cent in 2009; improving conditions next year, however, should support a modest recovery of 2 per cent.

While relatively aggressive government spending is not expected to prevent New Brunswick's economy from contracting this year, this investment will help ease the decline to a relatively moderate 0.5 per cent, according to the RBC report. The New Brunswick government recently announced an additional \$1.2 billion for infrastructure, providing welcome support for the local economy, given the low level of demand and prices for a number of key commodities produced in the province. Growth is expected to rebound to an above-average 2.7 per cent next year in New Brunswick, as recovering U.S. demand removes a significant drag on economic performance.

The main theme of the RBC Provincial Outlook is that tremendous weakness late last year and early this year has prompted a downward revision to real GDP growth forecasts across the board for 2009. Recent developments lend support to RBC's view that a general recovery will be established by the second half of 2009 and sustained in 2010. In 2009, expectations are that the economies of only three provinces – Saskatchewan, Manitoba and Nova Scotia – will grow, while all other provincial economies will contract. Ontario (deep troubles in the auto sector) and Newfoundland and Labrador (sharp drop in mineral and oil production) are taking the biggest hits, with Alberta (cutbacks in business and residential investment) being the other province showing above-average decline in activity. However, RBC continues to project that growth will return to all provinces next year.

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, retail sales and housing starts.

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

	Real GDP			Housing starts			Retail sales			Employment			Unemployment rate		
	Y/Y % Change			Thousands			Y/Y % Change			Y/Y % Change			%		
	<u>08</u>	<u>09</u>	<u>10</u>	<u>08</u>	<u>09</u>	<u>10</u>	<u>08</u>	<u>09</u>	<u>10</u>	<u>08</u>	<u>09</u>	<u>10</u>	<u>08</u>	<u>09</u>	<u>10</u>
N. & L.	-0.1	-3.5	3.0	3.2	3.2	3.0	7.6	0.1	4.8	1.5	-2.6	1.1	13.2	14.7	14.8
P.E.I.	0.9	-1.8	2.0	0.7	0.5	0.7	5.6	-1.3	4.1	1.3	-2.3	1.0	10.7	12.5	12.6
N.S.	2.0	0.2	2.5	4.3	3.2	3.5	4.2	-2.8	4.5	1.2	-0.4	1.0	7.7	9.3	9.6
N.B.	0.0	-0.5	2.7	4.2	3.5	3.5	5.9	-2.2	4.1	0.9	-0.5	0.6	8.6	9.5	10.3
QUE.	1.0	-1.6	2.3	47.9	38.9	37.0	5.1	-1.5	4.5	0.8	-1.0	1.1	7.2	8.8	9.4
ONT.	-0.4	-3.4	2.2	75.6	52.7	65.0	3.5	-3.0	4.2	1.4	-2.6	1.0	6.5	9.3	9.9
MAN.	2.4	0.5	2.8	5.6	3.9	5.3	7.2	-2.6	5.4	1.7	-0.1	1.3	4.1	5.1	5.6
SASK.	4.4	0.7	2.8	6.8	3.3	3.7	10.6	-1.9	5.8	2.2	1.5	1.2	4.1	5.2	5.7
ALTA.	-0.2	-2.5	2.9	29.0	16.7	28.0	-0.1	-7.8	5.7	2.7	-1.0	1.4	3.6	6.4	6.7
B.C.	-0.3	-1.9	2.9	34.3	14.7	23.0	0.3	-6.5	5.9	2.1	-2.5	2.1	4.6	7.8	7.8
CANADA	0.4	-2.4	2.5	211	141	173	3.4	-3.7	4.8	1.5	-1.7	1.3	6.1	8.5	9.0

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