



RECESSION SPREADS IN ATLANTIC CANADA: RBC ECONOMICS

East Coast provinces on track for positive growth in 2010

TORONTO, September 16, 2009 — All four provinces in Atlantic Canada are now expected to show negative growth in 2009, reflecting a deep impact from the recession, according to a new report by RBC Economics.

“The wave of business investment that was previously offsetting other areas of weakness in Nova Scotia’s economy has ebbed away and is no longer expected to keep the province in positive growth mode in 2009,” said Craig Wright, senior vice-president and chief economist, RBC.

Nova Scotia had been the sole province in Atlantic Canada expected to show modest growth by the end of the year, but the province has now slipped into negative growth territory. This decline is a result of cuts or cancellations to large capital projects and the delay of some public infrastructure stimulus spending. As a result, RBC has revised its forecast downward, showing a 0.4 per cent decrease in real GDP for 2009 rather than the 0.2 per cent increase projected in the June outlook.

Prince Edward Island appears to be weathering the economic storm better than other parts of the country, although it is still expected to show a small contraction this year. RBC has revised its forecast for real GDP growth to show a -0.1 per cent decline, which represents a meaningful upgrade from the June projection of -1.8 per cent.

“The diversification of Prince Edward Island’s economy away from a heavy reliance on agrifood and tourism industries appears to be gaining traction,” noted Wright. “The rapid growth in technology sectors such as aerospace manufacturing, where sales have risen by 10 per cent so far this year, has helped provide a counterbalance to the current slowdown in the province’s traditional sectors.”

Strong sales of potato products and a surge of public infrastructure projects have offset weakness in the tourism and fisheries sectors.

In New Brunswick, weak U.S. demand and soft commodity prices greatly affected the energy, mining, forestry and fishing sectors, with a strong Canadian dollar intensifying pressure on a struggling manufacturing sector.

“The strong fiscal stimulus provided by the New Brunswick government has helped cushion the impact of the recession,” said Wright. “However, this financial infusion will not be enough to help the province overcome widespread economic weaknesses in 2009.”

Private firms in New Brunswick have significantly curtailed spending plans in the face of the recession. Capital expenditures in the province are now projected to plummet by nearly 29 per cent in 2009, compared to earlier estimates of an 11 per cent decline, with exports having dropped almost 28 per cent. Consequently, RBC has revised its forecast downward for real GDP growth to decline by 0.8 per cent in 2009, compared to the 0.5 per cent decline projected in June.

RBC projections for real GDP growth for Newfoundland and Labrador in 2009 remain unchanged with a decline of 3.5 per cent.

“Newfoundland and Labrador’s economy is being considerably hampered by sharp declines in oil and other mineral production, which accounts for approximately 30 per cent of real GDP in the province,” said Wright.

In the first seven months of 2009, offshore oil output dropped by close to 16 per cent, year-over-year, in the province due to a shutdown at Hibernia to perform maintenance work, as well as natural declines arising from the maturing of existing oil fields. Additionally, mining production was down significantly amid weak global demand for metals and labour disruptions.

Consumer spending and residential investment increased from 2008 and remains a bright spot on the Newfoundland and Labrador economy, although the pace of housing starts has moderated since the spring. Additional good news is included in the most recent update to Statistic Canada’s survey of investment intentions, which indicates businesses and governments are planning to ramp up capital expenditures in the province by nearly 24 per cent in 2009.

In 2010, RBC forecasts economic growth throughout Atlantic Canada. For Nova Scotia, the projected recovery of the U.S. economy, beginning in the second half of 2009 and carrying over into 2010, is expected to boost demand for the province’s key export products. Growth in the services sector and the advancement of several big

ticket capital projects should contribute to a strong rebound in domestic activity. RBC is forecasting Nova Scotia's real GDP will grow by 2.6 per cent in 2010, up slightly from the 2.5 per cent projected in June.

Projected economic growth in real GDP for both New Brunswick and Prince Edward Island in 2010 remains unchanged from the June outlook, at 2.7 per cent and 2.0 per cent respectively. A strengthening U.S. economy is expected to help support New Brunswick exports of manufacturing and commodities. This province also should benefit from further sizable increases in government spending and the positive effects on consumer spending from a gradually recovering labour market. Prince Edward Island is expected to experience improving conditions for exports and tourism, which should support modest growth recovery.

The real GDP of Newfoundland and Labrador is also still expected to grow in 2010, although by a slightly reduced rate of 2.0 per cent, down from the June projection of 3.0 per cent. Continued strong capital spending generated by work on megaprojects, a host of government infrastructure projects and the expected recovery in mining production is all expected to put the Newfoundland and Labrador economy back into expansion mode next year.

The main theme of the RBC Provincial Outlook is that, while the collective performance in Canada has largely unfolded as anticipated, recent developments on the provincial side indicate that the contraction in activity is more widespread than previously thought. In response, RBC has adjusted its forecast and is projecting that nine provinces will post negative growth in 2009, leaving Manitoba as the sole province expected to show positive, if modest, growth this year. RBC is forecasting that the economies of all ten provinces will expand in 2010, with western Canada leading the way. Saskatchewan and Nova Scotia are now expected to contract (due primarily to poor summer crop conditions and weakened capital spending, respectively). On the other hand, Ontario has shown encouraging signs that a rebound will emerge during the second half of this year, prompting a reduced rate of decline overall in 2009.

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			%		
	08	09	10	08	09	10	08	09	10	08	09	10	08	09	10
N.&L.	-0.1	-3.5	2.0	3.2	3.1	3.0	7.6	0.9	4.3	1.5	-2.4	1.1	13.2	15.4	15.5
P.E.I.	0.9	-0.1	2.0	0.7	0.6	0.7	5.6	-1.0	4.0	1.3	-2.0	1.2	10.7	12.7	12.9
N.S.	2.0	-0.4	2.6	4.3	3.3	3.5	4.2	-1.7	4.4	1.2	-0.1	1.0	7.7	9.3	9.6
N.B.	0.0	-0.8	2.7	4.2	3.6	3.5	5.9	-1.6	4.1	0.9	-0.2	0.7	8.6	9.3	9.8
QUE.	1.0	-1.9	2.2	47.9	40.5	39.0	5.1	-1.4	4.6	0.8	-1.0	1.1	7.2	8.8	9.4
ONT.	-0.4	-3.1	2.6	75.6	51.9	65.0	3.5	-3.1	4.1	1.4	-2.4	1.0	6.5	9.3	9.9
MAN.	2.4	0.1	3.0	5.6	4.2	5.3	7.2	-1.7	5.1	1.7	0.2	1.3	4.1	5.2	5.6
SASK.	4.4	-1.3	3.6	6.8	3.2	3.7	10.6	-1.3	5.8	2.2	1.5	1.0	4.1	4.9	5.3
ALTA.	-0.2	-2.8	3.0	29.0	17.1	28.0	-0.1	-7.3	5.6	2.7	-1.1	1.1	3.6	6.6	7.1
B.C.	-0.3	-2.6	3.2	34.3	14.8	24.0	0.3	-6.4	6.0	2.1	-2.5	2.1	4.6	7.7	7.6
CANAD A	0.4	-2.4	2.6	211	142	176	3.4	-3.5	4.8	1.5	-1.6	1.2	6.1	8.5	9.0

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