



ONTARIO'S ECONOMIC GROWTH BUOYED BY STRONGER U.S. DEMAND: RBC ECONOMICS

TORONTO, March 20, 2012 — Stronger U.S. demand for Ontario's exports and renewed strength in capital spending at the municipal and regional level will contribute to a modest rebound in growth in the province this year, according to the latest [RBC Economics Provincial Outlook](#) report released today. RBC projects real GDP growth of 2.5 per cent in 2012, up from an estimated 1.9 per cent in 2011.

"The recent encouraging developments in the U.S. economy are welcome news in Ontario and for the auto industry in particular," said Craig Wright, senior vice-president and chief economist, RBC. "We expect the strengthening U.S. labour market will continue to spur auto sales south of the border, boosting demand for Ontario-made motor vehicles and parts. Ontario's economy relies disproportionately on the U.S. market and this turnaround in the automotive sector will play an important role in boosting provincial exports."

Successive natural disasters in Japan and Thailand early last year resulted in major supply chain disruptions for Ontario's auto sector and set the industry back considerably. By the fall of 2011, however, auto production in the province was back on track and closed out the year with a strong gain. This trend carried through to the first two months of 2012, with production returning to pre-recession levels on a seasonally adjusted basis.

After providing a significant lift to Ontario's economy in 2009 and 2010, public sector capital spending eased last year with the end of the federal government's Action Plan. However, Statistics Canada recently reported that municipal and regional administrations intend to increase capital expenditures by 15 per cent on a nominal basis in 2012, which would more than reverse the substantial drop of 12 per cent last year. This increase will be supplemented by a modest rise of five per cent in provincial administration spending. RBC estimates that the pick-up in public sector capital spending will add about 0.3 percentage points to economic growth in 2013.

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“While we expect Ontario’s growth to accelerate modestly in 2012, ongoing industrial adjustments to a high Canadian dollar and deficit reduction efforts at federal and provincial levels will have a restraining effect over the course of the year,” observed Wright. “As the federal and provincial governments ramp up their deficit reduction programs and dial back on spending, Ontario’s economic growth will slow to 2.3 per cent in 2013.”

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, retail sales, housing starts and consumer price indices. The full report and provincial details are available online as of 8 a.m. ET today at: rbc.com/economics/market/pdf/provcst.pdf.

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