Remarks

by

Gordon M. Nixon
President & Chief Executive Officer
Royal Bank of Canada

to the

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Good afternoon and thank you Don for your introduction. My thanks as well to the London Chamber of Commerce for inviting me to speak.

The London Economic Development Corporation is also here today, and I'm told both groups are working closely with City Council to engage the community and build prosperity in London and the surrounding region. It is through such partnerships that the success and well-being of our communities are assured, and it appears that London is in good hands.

There are many talented leaders here, united in their determination to create new jobs, attract new investment, and enhance the quality of life in London. I'm very pleased to share the podium today with Brian Young of 3M, Steve Baker of the London International Airport, and Peter White of the London Economic Development Corp.

This morning, I'd like to talk about some of the key economic opportunities and realities we face as we extract ourselves, with painful slowness, from the global financial and economic crisis.

The global and financial crisis began in the U.S. real estate market and spread like fire, contributing to the failure of companies, destroying trillions of dollars of wealth, pilling on substantial government debt and causing a steep drop in global economic activity from which we have yet to recover. I could talk for hours on the causes and the culprits, and there were many, but the fact is that excessive leverage and liquidity across much of the developed word results in an asset bubble that when collapsed caused an economic decline not seen since the Great Depression.

Fortunately, amid the economic destruction, Canada's performance drew international praise for our country's strength, stability, risk aversion and good management.

The IMF attributed Canada's resiliency to sound macroeconomic policy, a proactive government and regulators, and well capitalized, well managed banks. The World Economic Forum used the strength of Canada's banking sector as a criterion for rating Canada one of the world's 10 most competitive economies.

The fact of the matter is that there were a number of reasons for Canada's outperformance, from the structure of our residential mortgage market to decades of sound fiscal and monetary policy, leading up to the crisis. Global demand for our resources and commodities helped provide some underlying stability to certain regions across the country.

Whether good luck or good management, or a combination of both, this was a startling silver lining, not just for RBC but for all things Canadian. While Canada has not been without its challenges, the impact on our quality of life and the mood and confidence in our nation is in stark contrast to most developed countries, and particularly the United States and Europe. We are challenged but they are in crisis.

The past three years, in my view, have been a transformative period for our country, where our fiscal discipline, regulatory and banking system, and our culture and values became front page news around the globe. This has been and remains Canada's time, and it is a great opportunity for us to take advantage of our relative strength to advance our position and standing in the global economy.

On a micro basis, we have felt this transformation in our international capital markets and wealth management businesses. Companies used to dealing exclusively with the large U.S. and European investment banks invited us to the table for the first time. Canada's reputation for careful conservatism -- now drawing international praise -- meant we could grow while others were pilloried by customers, the media and government.

But for our organization, for your businesses and institutions, and the country as a whole, we must aggressively find ways to capitalize on this relative strength or it will be a lost opportunity.

While the sharper edges of the crisis are controlled, business leaders around the world, including those in Canada, still face the task of adapting to an uncertain and new economic reality.

Still in motion are the economic recovery, consumer confidence, sovereign debt and regulatory reform of financial services. We all watch uneasily as new U.S. data comes out showing that houses are not selling, employers are not hiring and businesses are not investing.

Our neighbour to the south is clearly in for a long and painful recovery period. Economists argue about whether we are going to have a double dip recession -- most Americans want to know when the first one was over. We have housing prices basically at 30 year lows in the United States with very little optimism for improvement in the short term, unemployment is stuck in and around or just under the 10 per cent level, and of course that's the official unemployment numbers.

The fiscal situation is deteriorating from a very dangerous position with deficits running at $1.5 trillion dollars. The idea of spending $1.5 trillion dollars more than you have is really quite staggering and, unfortunately, as we in Canada learned in the 1990s, the fix requires increased taxes, decreased spending, and strong political will, none of which is in abundance during these difficult times. In my judgement, we're going to be living in a world with slow U.S. growth, (still the largest economy in the world, and our largest and most important market) and this has implications for Canada, its businesses and its communities.

We as a country have to adjust to a new economic paradigm and a global re-balancing by ensuring strong stable domestic growth, enhanced productivity and competitiveness, and increased trade with alternative markets, in particular, emerging markets that will account for most global expansion.

This is particularly the case for Ontario because, while Canada escaped the global recession virtually unscathed, different regions of our country were impacted differently with heavily weighted manufacturing regions, such as Southwest Ontario, feeling the greatest stress and, therefore, the greatest areas to re-balance. Ontario has to find ways to grow with less dependence on strong U.S. growth -- but it can.

London's recovery is now underway after two years of economic challenges: decreased investment, an auto sector in turmoil and employment falling by nearly seven per cent.

It's a reminder of the long reach every global financial shudder. When Greece's economy founders, we feel it. When China unseats Japan as the world's second-largest economy, we feel it. When the financial crisis spread to all corners of the globe, it did so at such speed, and with such thoroughness, that we all saw how porous and interlinked our borders have become.

While we have significantly outperformed, national economies have learned that they cannot operate in isolation but we see some stability we must position ourselves to success in the new normal that lies ahead.

Here in Canada, while we can all be proud of our national resilience in navigating the global financial crisis, the truth is that today's reality is far different than the years preceding the crisis. The world of excessive leverage, unlimited liquidity, strong global growth and asset inflation are over and we must re-calibrate our businesses to reflect slower growth in the West and focus on long-term sustainable and responsible value creation.

U.S. Consumers remain uncomfortable with the economy, the job market, and the housing market. This uncertainty is reflected in U.S. saving rates which have soared from one to two per cent of after tax income before the recession to 6.4 per cent in June.

U.S. consumers have been saving, not spending, as expectations about the economy and job security continue to fall.

In contrast, the Canadian consumer actually increased spending during the recovery period and have grown debt levels. However, it remains to be seen whether this behaviour will continue should interest rates rise, or our economy sputter.

What we do know for certain is that businesses can't build strategies anymore on the basis that free-spending consumers will fill their coffers. The days of middle America putting a car in the driveway for every family member are probably over, and the capacity for individual Canadians to increase leverage is limited. The new consumer is looking for products that deliver long-term value and address needs more than wants. A much greater premium will be placed on innovation and productivity.

With consumers thinking twice about their spending habits, business leaders have to look for other opportunities to improve profits and grow. Productivity improvement is a tough issue to address, but will be an essential component of Canada's ability to take advantage of our relative strength and compete – particularly in international markets.

Today's economic reality says that your measure is not how you're doing against your competitor in Windsor or Toronto, but how you are doing against a global backdrop.

Not only are our fundamentals strong, but we are currently in a period where Canada is going in a different direction than many other industrialized countries in the world.

Where other countries are becoming more protectionist in their trade policies, Canada is open.

Where other countries are limiting immigration, Canada is encouraging it. While taxes are increasing in many industrialized nations, ours are declining. And our national balance sheet has been managed more conservatively, a trend that is essential that we maintain. If we can continue to differentiate ourselves, we will be able to invest more aggressively than others and the payoff will be significant. But we can't be smug and we must address our lagging productivity and focus on innovation.

Canadian companies must move past seeing Chinese firms as an economic and competitive threat…. and see them instead as potential partners that can help Canadian firms be more efficient and competitive internationally. Chinese firms have proven, competitive strengths as subcontractors, especially for high volume, labour intensive businesses. Canadian firms have proven, competitive strengths in R&D, design and high skill manufacturing.

Put these strengths together and you have a combination that can succeed anywhere in the world, while ensuring Canada continues to have vibrant manufacturing centres, including the London area. But we must increase our investment in R&D and focus on those areas where we can innovate and lead.

Despite all the nay saying about the future of manufacturing in Canada, innovative companies with the market access and skilled workers that London offers are ideally positioned to thrive. Shining examples of this include Diamond Aircraft Industries Inc with 600 skilled employees, and Armatec Survivability Inc. whose products save the lives of our Canadian military every day.

Canadian governments have stepped up to address the issue of productivity, with policies implemented, such as reducing regulatory burdens on business, tax reform and tax relief, but the business community must also play a role.

When the private sector in Canada makes those all-important productivity-enhancing investments, the benefit extends beyond more profitable Canadian companies. Our economy becomes more attractive to investment, more resilient during economic downturns and more buoyant during strong economic performance.

All of our opportunities in this new normal are framed by an assumption of a fair, consistent regulatory environment, one that avoids new and unnecessary costs to taxpayers, facilitates the flow of capital and goods and allows the private sector to remain responsive to client needs and market changes. My industry is in the throes of regulatory change. It is critical that we ensure a stable financial services system but also one that encourages innovation and has the appetite to take risk. Finding that right balance is essential to our ability to facilitate economic growth.

Just as productivity is a tremendous opportunity in our new economic reality, changing demographics in Canada, namely an aging population and a more diverse population should be an ongoing part of our strategic decisions. Diversity is another of Canada's great competitive advantages and leveraging our diversity will have huge payback.

You may recall the Statistics Canada headlines earlier this year with the news that by 2030, immigrants will be our main source of population growth, a critical ingredient for economic growth. One-in-five Canadians will be a visible minority, and in Ontario, that percentage will be even higher.

Businesses that take strategic advantage of this pool of talent will see their productivity improve. RBC's markets are changing, and we understand that to best serve our markets, we must hire the market.

We've found that one of the easiest investments in improving productivity and increasing our strategic options is to ensure that our hiring processes and policies access and welcome skilled immigrants. For example, if your plan is to reach out to economic giants like China and India, immigrants bring the language and cultural skills, knowledge, and networks you need to do this.

That's the business rationale. From an economic perspective, if Canada is to improve its standard of living, we must do more to become the destination of choice for skilled immigrants and then to hire them for jobs appropriate to their skills. It will be an engine of growth.

Cities need this influx of immigrants: after 2015, almost one-in-four people will be senior citizens, and immigrants will be pivotal to sustaining the tax base, supporting our health care system, building businesses and contributing to Canada's productivity and intellectual capital.

I see first hand the talent that cultural diversity brings to businesses and cities, in my role as CEO of one of Canada's major employers, in my role as the co-chair of The Toronto Region Immigrant Employment Council and as a citizen of Canada's most culturally diverse city, where nearly half (almost 47 per cent) of Toronto's population comprises visible minorities.

There is going to be a lot of competition by provincial and municipal governments for new Canadians, their talent, and their wallets in the years ahead. Of course, London is already acting: the London-Middlesex Immigrant Employment Council is proactively working to attract international talent to this region. In fact, from its beginnings with 15 business leaders in 2008, the Council now has over 150 employers.

RBC was pleased to play a founding role on the Council and I applaud all of the council members, including Gus Kotsiomitis, our vice-president for our Commercial Banking Team and also an executive on the Board of your local Chamber of Commerce.

As visible minorities become a larger percentage of our population, so too will senior citizens. The dependency ratio, which is the number of working people per retired person, is moving from six-to-one to three-to-one over the next twenty years…. so it's definitely a major shift.

But there are also benefits that some cities and regions will capitalize on: the creation of retirement communities, retirement planning services, health and wellness services, elder travel and significant community and philanthropic opportunities, as boomers consider their legacy.

I would observe that London seems well placed to seize these opportunities, having been recognized as the third highest retirement spot in North America, outpaced only by Victoria and Boulder Colorado.

From participation in the global economy to tackling the implications in consumer sentiment and demographics, London is well positioned to respond to the new normal.

The city is geographically situated for growth and Just in Time inventory strategies: one hour away from the U.S. border; excellent transportation infrastructure across rail, highway and international air, and an opportunity to build a strategic partnership with an international port in Sarnia.

London has exceptional post secondary educational resources, and world class health services. It has an abundance of top-notch institutions which translate into outstanding strategic assets for the region: the University of Western Ontario, Fanshawe College, Robarts Research Institute, Lawson Health Research Institute, and the National Research Council of Canada.

These institutions lay an excellent foundation for emerging sectors in the London area economy such as health sciences, green tech and information technology.

London has so many of the attributes that comprise a resilient, successful city, one that can weather hard economic times and soar during prosperous times.

This event today, Economic Outlook 2010, is the product of many very capable people joined together in the common cause of making the London area stronger and more vibrant than ever before.

It is a real honour – for me and for RBC -- to be included in this discussion.

Today’s global economy faces many challenges and many Canadians and businesses have had to deal with the fallout of the economic crisis that was not their making. But through adversity lies opportunity and Canada, Ontario and London have the fundamental strength that provides for great prospects. We will have to adjust to a new normal, but our fundamentals and flexibility give us a tremendous competitive advantage. Hopefully, we can rise to the occasion.

Thank you for including me in today’s event and I hope we have many more opportunities to share insights, community-build, do business and face the future full on together.