



ONTARIO'S ECONOMY CAUGHT IN THE U.S. VORTEX, SAYS RBC

TORONTO, October 8, 2008 – Struggling to resist the pull of a weakening U.S. economy, Ontario's economic growth is expected to stall in 2008, and improve only marginally to 0.4 per cent in 2009, according to the latest provincial outlook released today by RBC.

“With the U.S. economy slipping into recession, the vortex created will be nearly impossible for Ontario to miss,” said Craig Wright, senior vice-president and chief economist, RBC. “While strong economic ties with our southern neighbour paid significant dividends during the economic boom of the past two decades, those ties have become a ball and chain around Ontario's ankle, as export demand has soured.”

A technical recession was narrowly avoided in the first half of this year, as economic growth rebounded in the second quarter following a contraction in the first. Unfortunately, the factors that contributed to the bounce back of activity – an inventory rebuild, increased government spending and a rebound in housing construction – are not expected to be forceful contributors in the period ahead. More importantly, real net exports have turned negative and will remain a central concern for 2009.

The report also noted that Ontario's robust domestic conditions are starting to show cracks in the foundation. Provincial employment has recently taken a hit; housing markets are cooling rapidly; and the residential construction sector has become extremely volatile -- with the majority of activity taking place on the multi-unit side. If negative sentiment continues to spread, these cracks could widen further, testing the resilience of other strong-performing sectors like consumer spending.

While Ontario's economy should continue to benefit from public infrastructure programs, low interest rates and fiscal relief at the federal level, overall performance is expected to be at its weakest since the recession of the 1990s, noted Wright.

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

- 30 -

For more information, please contact:

Craig Wright, RBC Economics, (416) 974-7457

Robert Hogue, RBC Economics, (416) 974-6192

Jackie Braden, RBC Media Relations, (416) 974-2124