



QUEBEC TO GET THROUGH THE RECESSION WITH FEWER BUMPS AND BRUISES, SAYS RBC ECONOMICS

Head start in infrastructure spending helps smooth impact

TORONTO, June 15, 2009 — Although Quebec's economy is facing its toughest economic conditions of the past 18 years, it is expected to get through the recession with fewer bumps and bruises than Canada's other large provinces, according to a new RBC Economics report.

"The performance of Quebec's economy has eroded noticeably over the first few months of 2009," said Craig Wright, senior vice-president and chief economist, RBC. "However, it is less vulnerable to the breakdown of a major economic catalyst, such as Ontario's auto sector. Also, infrastructure spending in Quebec has had a head start, which is helping to smooth the recession's impact."

The report notes that builders have put the brakes on new home building in the province, slowing the pace of housing starts to the second lowest point since 2001. In addition, manufacturing heavyweights, such as the aluminum and aerospace industries, have suffered setbacks due to deteriorating market conditions, which also continue to plague producers of pulp, paper and wood products and furniture.

With negative forces intensifying and likely to persist longer than previously anticipated, RBC Economics has lowered its real GDP growth forecast for Quebec to -1.6 per cent from the -0.5 per cent cited in its March *Provincial Outlook*. This would represent the province's first annual contraction in activity since 1991, when the economy shrank by a more significant 2.7 per cent. The report is also projecting that the unemployment rate will average 8.8 per cent in 2009.

Fiscal stimulus spending is cited by the report as one of the reasons for a more optimistic provincial economic outlook for 2010. The Quebec government recently boosted its infrastructure renewal plan to \$42 billion and extended it into 2013. In the current fiscal year, spending on various public infrastructures in Quebec is set to climb by more than 8 per cent, while Hydro-Quebec is planning an 11 per cent boost to its capital investment expenditures.

With this infrastructure investment, the credit crisis subsiding and Quebec's main trading partners regaining their footing later this year, the report expects that consumer and business sentiment should gradually turn around, spurring a moderate recovery during 2010, with real GDP growing by 2.3 per cent.

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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