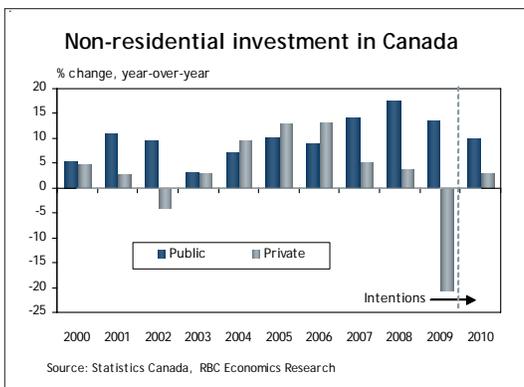
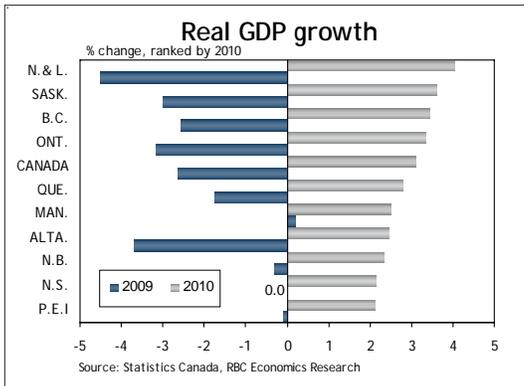


PROVINCIAL OUTLOOK

March 2010



Riding the stimulus high

At last, a recovery worth the name seems to be finally taking hold in Canada. At the national level, the weak growth, which marked the end of the recession in the third quarter of 2009, blossomed into a solid 5% annualized rate in the final three months of the year, yet in many regions Canadians may not feel this recovery very much so far. Unemployment rates remain near multi-year highs in many provinces (including Nova Scotia, Ontario and Alberta). The rebound in activity to date is also not being evenly shared across the country at the moment: while several provinces (including British Columbia, Saskatchewan and Quebec) are showing signs of improvement on several fronts, others (such as Alberta) seem to be taking somewhat longer to get going. This, however, is typical of the early stages of an economic upturn, when wide performance divergences can emerge owing to industries and regional economies not all operating in perfect sync with one another.

Nevertheless, as this recovery matures during 2010, we believe that all provinces will get on board the expansion wagon. The benefits of strengthening global demand, rising commodity prices, fully functioning credit and financial markets, and extremely stimulative fiscal and monetary policy will increase and spread from coast to coast as the year progresses. In many cases, 2010 will represent the crest of stimulus spending. As negative factors constraining growth in provincial economies subside, the full force of this stimulus will be felt. While expected to start rising mid-year, interest rates will remain historically low and very supportive of growth. Among other things, these low interest rates should sustain relatively strong demand for housing.

Thus, at least through the early part of the year, prospects for most provinces in 2010 will be largely influenced by policy stimulus. The real challenge will come after, when the various stimulus measures are withdrawn. Growth leadership will need to transition to the private economy smoothly. Fortunately, early signs for this are positive. In provinces such as Alberta, British Columbia, Manitoba, Quebec and Ontario, capital spending intentions by private firms are up substantially in 2010 in the mining and energy sectors. We expect that, as provincial economies recover more ground lost during the recession and push against productive capacity, private investment will also increase in other sectors.

In this update, we made a number of changes to our provincial growth forecast. Newfoundland and Labrador is now expected to be in the front row of the expansion wagon with a growth rate of 4.1% this year – representing both a significant boost from our previous forecast and a sharp turnaround relative to 2009 when it trailed all provinces. We also raised our 2010 growth forecast in British Columbia, Ontario and Quebec to 3.4%, 3.3% and 2.8%, respectively. On the other hand, we lowered our projections for Prince Edward Island (to 2.1%), Nova Scotia (to 2.2%),

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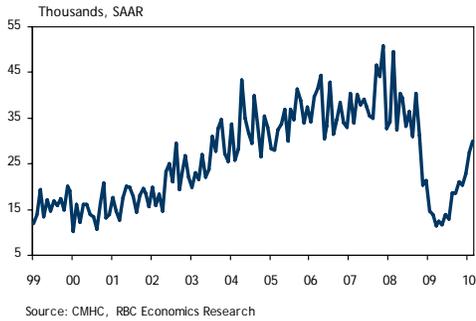
New Brunswick (to 2.4%), Manitoba (to 2.5%) and Saskatchewan (to 3.6%) – mainly to reflect a slower-than-expected pace at this juncture and, in the case of Manitoba, a disappointing drop in capital investment intentions for this year. Our forecast for Alberta has been left unchanged at 2.5%. A few small revisions have also been made to our 2011 forecast – upward in the case of Newfoundland and Labrador and Ontario and downward in the case of Prince Edward Island, Nova Scotia, New Brunswick and Quebec. Next year, Saskatchewan is expected to take over the top spot among the provinces.

British Columbia – Taking centre stage

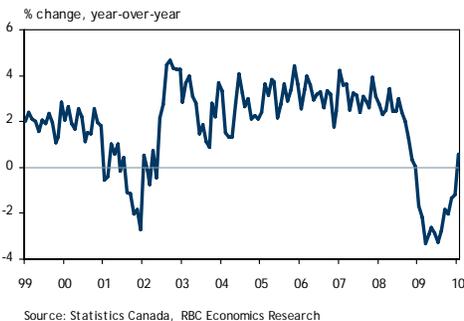
After years of planning and preparations, the curtain has now closed on the 2010 Winter Olympics in Vancouver and Whistler (but not yet on the Paralympic Games, which are set to begin on March 12). Despite early glitches (and an uncooperative Mother Nature at some venues), the games were arguably among the more successful ever, a testament to the hard work and dedication of the organizers, volunteers and British Columbians. The event not only showcased the beauty of the B.C. landscape and friendliness of its people but also the impressive skills and competence in the province. It will take months, if not years, to assess the economic impact of the games, but it is clear that it succeeded in positioning Vancouver and British Columbia for the long term as an ‘it’ destination for travelling, emigrating and doing business. To be sure, the influx of tens of thousands of guests during February and March will give a big boost to tourism, retail trade and a wide variety of other services. This will speed up an economic recovery that has shown signs of finally gaining traction in recent months. In 2010, British Columbia is expected to be among the growth leaders in the country, with real GDP forecasted at 3.4% (revised slightly higher from 3.2% previously), behind only Newfoundland and Labrador, and Saskatchewan. This would represent a significant improvement in the province from a contraction of 2.5% in 2009, which marked the worst performance since 1982.

Aside from the Olympic ‘stimulus’, the B.C. economy should continue to benefit strongly from exceptionally low interest rates. The effect has been clearly felt in the housing market throughout the better part of 2009, where low rates have fired up demand, causing sales of existing homes to surge to new heights. Because key areas of the market in the province started 2010 in very short supply, construction of new housing should be next to benefit in the year. Housing starts for 2010 are projected to rise to 25,600 units, after plummeting by more than half to 16,000 units in 2009. New home building is expected to be brisk in the first half of 2010 – ahead of the introduction of the HST – but moderate in the latter part. An improvement should also be evident in capital investment, thanks primarily to a better outlook for the energy and mining sectors. The recent survey of investment intentions conducted by Statistics Canada reveals that firms in the oil and gas and mining sectors plan to ramp up capital spending significantly by nearly \$1.4 billion (or 21%) in 2010. This will contribute to a rise of almost 5% in total expenditures on non-residential construction and machinery and equipment in the province. However, stronger capital spending announced subsequently to the survey by the provincial government in its March 2010 budget points to some upside. The B.C. government and its crown corporations are now budgeting for an increase in capital expenditures of more than 12% to a total of \$8.2 billion during the 2010-2011 fiscal year, an upward revision of more than 6% relative to the previous projection.

B.C. housing starts



B.C. employment



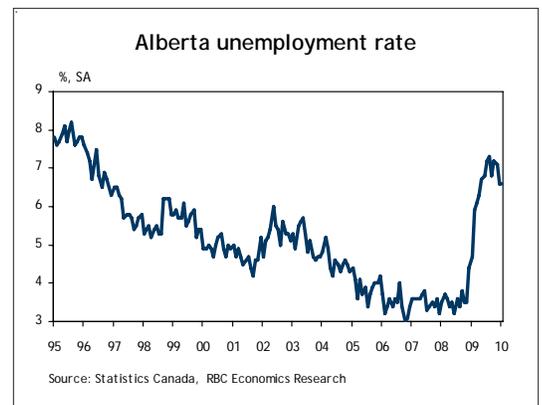
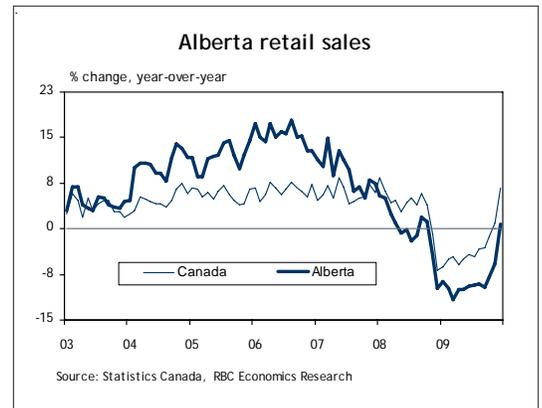
The expected pick up in economic activity should invigorate the B.C. labour market. Already on an upswing since late last summer, employment is expected to continue growing throughout 2010, completely reversing the losses incurred during the recession by the end of the year. This is forecasted to translate into an annual rise of 2.1% this year, much improved from a 2.4% decline in 2009. The unemployment rate, however, is likely to remain sticky at 7.7% on average, or slightly higher than the 7.6% last year, due to the entry of more people into the labour force.

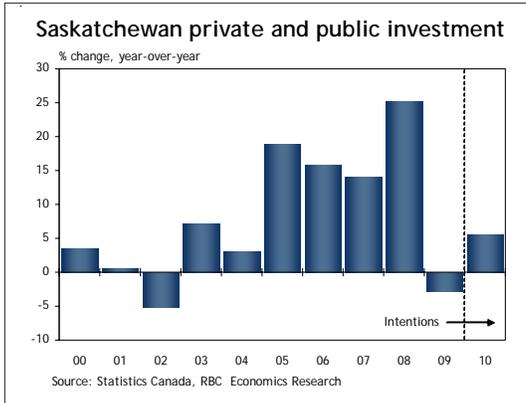
Solid momentum in the B.C. economy is expected to carry into 2011 with growth forecasted to remain steady at around 3.4%. This would be modestly slower than the national average of 3.9%, reflecting mostly the removal of the Olympic boost.

Alberta – Not snapping back this time

Signs of an economic recovery are still sparse in Alberta, and so far the evidence points to a relatively weak recovery at this stage. To be sure, recent data indicate significant progress from the slump in activity in late 2008 and early 2009; however, the softness of the rebound is atypical for a province that traditionally snaps back powerfully after a period of contraction. For instance, Alberta's economy roared ahead at rates of 4.3% and 8.0% in the two years following the early 1980s recession (the provincial economy avoided a contraction in the early 1990s). This time, the pick-up in growth is running late in just about every economic sector: exports, manufacturing, consumer spending, non-residential investment and the labour market. The lag likely reflects, to some degree, the continued slump in the natural gas industry, on which the province is heavily dependent. The housing sector might be one of the few exceptions, having surged from the 13-year lows touched early last year; nevertheless, housing starts have yet to reverse even half of the huge drop during 2008 and appeared to have lost some momentum at the end of 2009 and the start of 2010. Despite the disappointing softness of the recovery entering 2010, we expect the pace of activity to accelerate moderately in the period ahead, driven by an anticipated strengthening in natural gas, renewed spending on capital projects – both public and private – and low interest rates. Real GDP in the province is forecasted to grow by 2.5% (unchanged from the *December Provincial Outlook*), which would constitute a considerable improvement from the massive 3.7% estimated decline in 2009 (revised lower from -3.4% previously) but fall well short of both the national average (3.1%) and the province's own track record in past recoveries.

A key positive element this year will be a rebound in capital expenditures in the energy sector. According to Statistics Canada's *Public and Private Investment Intentions* survey released at the end of February, firms in Alberta's oil and gas extraction industry are planning to boost spending by more than 8% this year to \$25.5 billion. This primarily reflects renewed construction activity in the oil sands where a number of projects have been recently returned to the front burner. The increase, however, would barely begin to fill the deep hole created last year, when capital expenditures in the industry plummeted by 41% (almost \$17 billion!). The outlook for the battered drilling industry, nevertheless, remains grim with spending intentions further declining by more than 29% this year. For its part, capital spending by public administrations is slated to ramp up substantially in 2010 – by 20% to \$4.7 billion. Almost the entire increase will be





related to work done at the regional and local levels. The February Alberta budget confirmed that the provincial government is committed to boost total capital spending by 5.4% in the 2010-2011, partly reversing a decline of almost 10% in 2009-2010.

As economic conditions gradually perk up during the course of the year, Alberta's job market should post stronger and stronger gains. Overall, we expect employment to grow by 1.4% in 2010, equalling the pace at the national level and more than reversing the 1.3% decline in 2009. Any meaningful amelioration in the unemployment rate, however, will take a little longer to materialize, as we forecast for it to remain unchanged at 6.6% this year on an annual-average basis. The improving job outlook and continued low interest rates (notwithstanding an expected rise starting mid-year from the current exceptionally low levels) should support stronger consumer spending and further fuel demand for housing. Housing starts in the province are forecasted to regain momentum and increase to 27,600 units in 2010 from 20,000 units in 2009.

By next year, the recovery should be well established in Alberta. Although the boom in activity traditionally displayed at this stage of the cycle is unlikely to develop fully, a meaningful burst of growth of 4.4% is forecasted in 2011 (unchanged from our previous projection). This would propel the province near the top of the provincial growth rankings, second only to Saskatchewan.

Saskatchewan – Growth rebounding with commodity prices

Throughout 2009, growth in Saskatchewan was continually being revised lower as falling commodity prices, particularly for potash, weighed on expenditures and incomes (including fiscal revenues). It is unfortunate that this is again the case with this quarterly forecast update, where activity in the province is now expected to have dropped 3.0% in 2009, which compares to a 1.6% decline projected in our *December Outlook*. Looking past 2009, however, we are confident that brighter growth prospects in both the United States and emerging economies will support higher natural resource commodity prices. Potash prices are expected to rise on the back of increased fertilizer use globally after weak demand last year caused prices to drop. Significant agreements have recently been signed by the major Saskatchewan potash producers with both China and India. These agreements implied a stabilization in prices early in 2010, which augurs well for increasing strength as the year progresses.

The recently released *Public and Private Investment Intentions* survey for 2010 provides some encouragement that firms are expecting improved economic conditions and are preparing to revive various investment projects. The survey showed an increase in capital spending of 5.5% this year following a decline of 2.8% in 2009. Although most of the 2010 increase reflected a 16.3% rise in public investment, private sector spending is also slated to rise 2.8%, which would retrace one-half of the 5.7% decline in 2009. The overall increase this year represents the fastest gain among all of the Western Provinces. On a sectoral basis, most of the strength was concentrated in the mining and oil and gas extraction sectors, which is consistent with an expected recovery in both energy and base metal prices this year.

A decline in grain production was also a factor weighing on overall growth in 2009. Statistics Canada recently estimated a 1.7% drop in the overall volume of field crop production. Inclement weather early in the growing season suggested a major falloff in output although as more favourable conditions emerged, the damage proved less than feared (in July, Statistics Canada estimated a decline of 13.9% in the harvest). The assumption of a return to more normal weather this year should see these declines more than reversed with the expectation of rising grain prices providing a further boost to farm incomes both this year and next.

A revival of capital expenditure this year and a recovery in agricultural output bode well for a return to positive growth in the province to 3.6% and 4.6% in 2010 and 2011, respectively. The resumption of positive growth is also a reflection of strengthening natural resource prices – which is a key to the Saskatchewan economy –for potash, oil, natural gas, uranium and grains. In fact, this factor holds the promise of returning the province close to the position of growth leader nationally this year and obtaining the title in 2011.

Manitoba – The worst has passed

Recent economic data are providing reassuring signs that the worst of the economic weakness in the province has likely passed. Most encouraging has been the retail sales numbers where year-over-year growth improved to a gain of almost 3.5% in the fourth quarter of 2009 from a recent trough in the first quarter of 2009 of -4%. The December increase of over 6% augurs well for this improving trend to continue during 2010. Although employment did not match this upward trend throughout 2009, a solid advance in January provided evidence that an improving trend will indeed take hold on the job front in 2010. Manufacturing data continued to decline on a year-over-year basis during 2009 although the pace eased modestly in the fourth quarter.

Although growth in Manitoba is estimated to have grown only 0.2% in 2009, it was in contrast to a 2.6% decline nationally. This in part reflects a relatively diversified provincial economy with manufacturing less focussed on motor vehicle production, which was hammered by the recession. As well, capital expenditures continuing to grow by 4.0% in 2009 helped the province; however, the recently released *Public and Private Investment Intentions* survey numbers for the province indicate the cost of this earlier support. Because of the winding down during 2010 of spending on such key projects at the Keystone pipeline and Red River Floodway expansion, overall capital spending is expected to fall 1.1%. Manitoba is expected to be the only province to see a decline in capital spending in 2010; be that as it may, the extent of the decline will be tempered by spending increases in mining and ongoing expenditure on Manitoba Hydro's Wuskwatim Generation Project.

The increased investment in mineral extraction is supported by expectations of a recovery in base metal prices as demand from both emerging and industrialized economies strengthens. This factor also prompted the reopening of a zinc mine that was shuttered in 2009 with full production expected to resume by the second quarter of 2010. A recovery in global growth is also expected to contribute to a more noticeable improvement in manufacturing activity both this year and next that will help support key sub-sectors in the province such as the production of transportation equipment (e.g., aerospace and buses) and machinery equipment.



Weather-related weakness in agriculture was a factor restraining overall GDP growth in Manitoba in 2009 with field crop production projected to be down 6.3%, as recently estimated by Statistics Canada. Expectation of less inclement conditions in 2010, however, should help grain production recover this year and contribute to the economy's output.

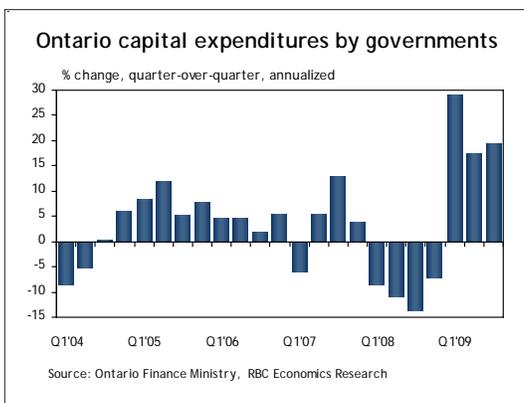
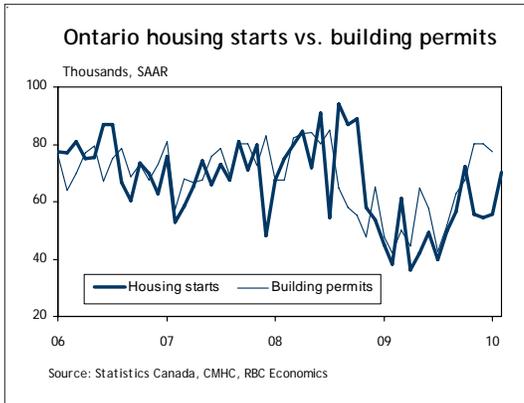
The revival in mining, agriculture and manufacturing is anticipated to more than offset the expected weakening in capital expenditure. As a result, growth in the province is forecasted to rise 2.5% and 4.0% in 2010 and 2011, respectively. As we suggested, ongoing capital expenditures in 2009 resulted in Manitoba being the sole province to eke out a gain in 2009; however, the receding of spending this year will result in a more modest bounce back in growth in 2010 relative to other provinces and will result in Manitoba growing below the national rate.

Ontario – Firmly engaged on a recovery path

Despite many challenges still to overcome, Ontario's economy appears to be firmly engaged on a recovery path. Recent figures from the Ontario Ministry of Finance show that positive growth returned timidly in the third quarter of 2009 (as it did in Canada), likely marking the end to the most severe contraction in the province since the early 1990s recession. Developments in the past several months lead us to believe that growth accelerated considerably in the final quarter of 2009. Among other things, motor vehicle production continued to bounce back and the housing sector built up quite a head of steam. This renewed vigour sets the stage for a sustained recovery throughout 2010 as fiscal and monetary stimuli reach their crescendo. In fact, overall growth in the province is now expected to slightly exceed the national average this year. We upgraded our 2010 real GDP growth forecast for Ontario to 3.3% from 2.4% in the *December Provincial Outlook*. While this would not fully make up the ground lost during the last two years – 3.6% cumulatively based on annual numbers – it would confirm that the provincial economy is indeed getting back on its feet and picking up the pace.

That being said, this recovery will not be evenly felt across economic sectors. For instance, the province's hard-hit manufacturers will continue to face many obstacles. Top on the list of impediments will be the continued strength in the Canadian dollar (forecasted to hover around parity against the U.S. dollar this year), which will dampen the beneficial effect of improving demand south of the border. The all-important automotive sector, while anticipated to heal further, will be susceptible to more turbulence.

At the other end of the spectrum, the construction sector is expected to enjoy strong activity all-around. The non-residential side will benefit from a sharp increase in capital spending by governments at all levels. In the latest *Public and Private Investment Intentions* survey, the province's public administrations revealed intentions to boost construction expenditures by 24% for roads, sewage, public buildings, etc. in 2010. Increased public spending is also largely behind even bigger jumps in spending in the transportation (mostly public transit) and education sectors. On the residential side, home builders should be busier this year, especially during the first half of it. The sizzle in the resale market during the past many months is expected to transfer some of its heat to the new home market, because buyers far outnumber the supply of available



properties for sales at present. Building permits – a generally reliable indicator of upcoming activity – surged late in 2009 and early 2010, indicating that the pipeline of work to be initiated is filling up fast. This should translate into a meaningful increase in housing starts this year – forecasted to rise to 64,200 units from 50,100 units in 2009. Activity could be particularly brisk this spring because the implementation of the HST on July 1 could bring forward construction of new high-end homes, which will be subject to higher net sales tax under the HST regime (the effect of the HST on new homes priced below \$400,000 is expected to be neutral because they fall under the cap on rebates).

Prospects should further improve for job hunters in the province, but the unemployment rate is unlikely to budge much this year. About one-third of the 250,000 jobs lost during the recession have been recovered since last summer, and more improvement is expected during the course of 2010; however, the pace is seen to be only gradual, so a full recovery is unlikely to occur before the middle of 2011. In this scenario, the average unemployment rate is anticipated to move marginally higher in 2010 (to 9.2%) than in 2009 (9.0%).

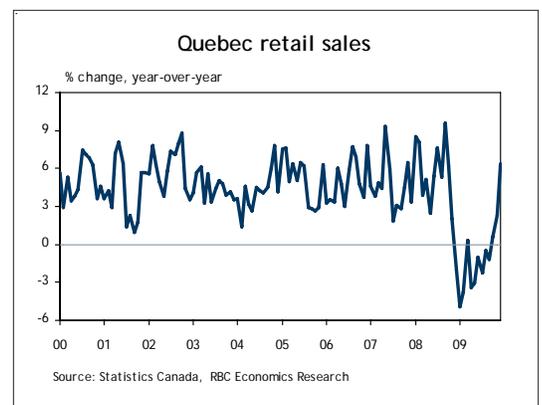
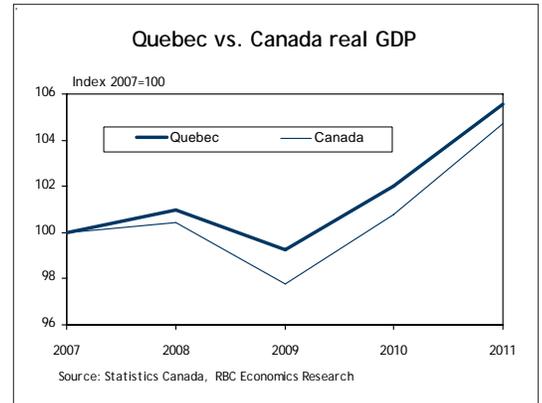
Possibly the biggest policy event to occur in 2010 in Ontario will be the introduction of the HST on July 1. Although the HST will result in certain currently exempt products and services being taxed, moving to a value-added tax structure will make the tax system more economically efficient and will improve the competitiveness of Ontario businesses by lowering the cost of doing business in the province. The benefits of such a tax system will accrue over the medium to longer term.

In 2011, the Ontario economy is projected to grow by an 11-year best 4.1% rate, as more sectors and industries embark onto the recovery path.

Quebec – Moving right along

Quebec's economy appears to be on track to grow at a moderate pace this year. Recent indicators generally confirm that the recovery is gaining traction in the province thanks in no small part to the hefty stimulus actions. Growth resumed in the third quarter of last year, according to estimates from the Institut de la statistique du Québec, and gains in key economic sectors since then suggest that growth has picked up in late 2009 and early 2010. The release of the *Public and Private Investment Intentions* survey in February brought good news with positive implications for growth for the remainder of 2010. Among other things, it revealed that public administrations plan to increase capital expenditures by a further 3.8% in the province this year. We previously assumed that massive government infrastructure spending had crested last year and would decrease modestly in 2010 – based on the five-year Quebec Infrastructures Plan released in January 2009. Consequently, removing this assumed drag on growth from our forecast prompted us to revise higher our real GDP growth projection for 2010 by 0.7 percentage points to 2.8%. While this would be a little weaker than the national average, it would equal the provincial economy's performance in 2007, which was the strongest since 2000.

The below-average growth this year should not necessarily be a cause for disappointment. The hole drilled by the recession is not as deep in Quebec as it is in many other parts of the country; therefore, it does not require as quick a pace



to climb out of it. In fact, relative to the level of activity in 2007 (i.e., before the recession hit), Quebec's economy is expected to be well ahead of many other provinces – including this year's faster-growing Ontario and British Columbia – and the national average once 2010 is all said and done.

Aside from the sustained impulse from public infrastructure spending, the Quebec economy will benefit this year from a pick up in capital investment in a number of other sectors, including mining, utilities, transportation services (public transit) and even manufacturing (more specifically primary metals). This is expected to fuel activity in non-residential construction. Residential construction also is likely to do reasonably well, as exceptionally low interest rates keep housing markets humming. Housing starts are forecasted to rise to 45,500 units in 2010 from 44,000 units in 2009. Low interest rates, an improving labour market and stronger consumer confidence should boost consumer spending. Monthly retail sales have significantly recovered since the sharp drop during the latter part of 2008 and are projected to grow relatively solidly, overall, in 2010.

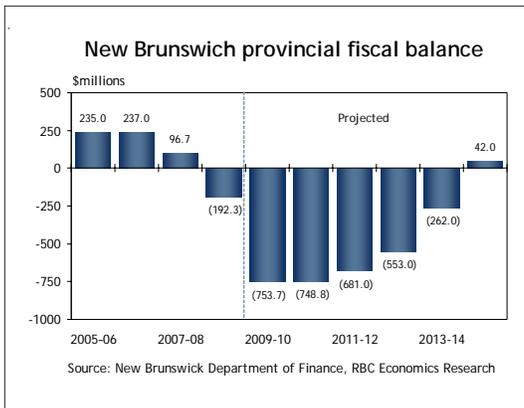
On a less encouraging note, Quebec's manufacturers are likely to face continued strong headwinds. In particular, the aerospace industry – one of the province's key manufacturing clusters – will be cutting back production in response to a significant drop in aircraft orders in the past several months. More generally, while underlying demand for manufactured goods should improve overall, continued strength in the Canadian dollar is likely to contain any business gain. This context is also seen to weigh on the province's international trade.

For 2011, growth in Quebec's economy is projected to accelerate to 3.5%, partly reflecting stronger external trade; albeit, this represents a small downward revision from our previous forecast of 3.7% – as some of the extra capital investment taking place in 2010 is reversed.

New Brunswick – Standing on the shoulders of government

The year 2009 was clearly a rough one for the 'Picture Province', as weak external economic conditions and soft commodity prices seeped through its borders and wreaked havoc on the manufacturing and natural resource sectors. In all, New Brunswick manufacturers' sales plummeted by 21%, while exports of energy and forest products plunged by 25% and 15%, respectively, in nominal terms. To alleviate such economic hardship, the provincial government opened wide its wallet, to the tune of a two-year, \$1.6 billion infrastructure stimulus program (of which \$704 million, representing approximately 2.5% of GDP, is scheduled in 2009-2010) and a \$400 million tax reform. These measures appear to have succeeded in providing a significant offset to the economic weakness. Non-residential building construction rose by 7.6% (led by a 25% surge in institutional and governmental construction), and employment avoided large losses that were so common elsewhere in the country – growth in public administration jobs completely offset a large drop in those in the manufacturing sector. Overall, New Brunswick managed to fare better than the majority of provinces, with real GDP estimated to have fallen by only 0.3% in 2009 (unchanged from our *December Outlook*).

Looking ahead, public sector support to the economy will become even stronger in 2010. The second year of the stimulus program will provide \$896 million in

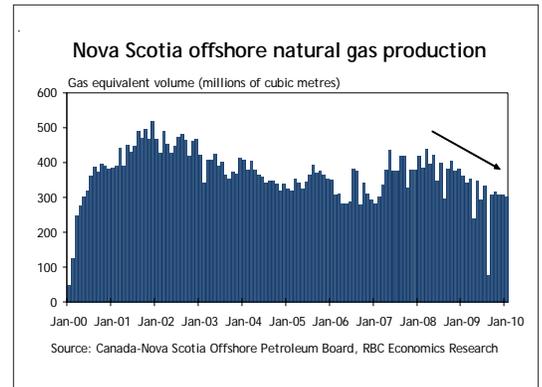


infrastructure spending (a 27% increase from 2009), and personal tax cuts worth \$258 million will kick in. The provincial economy should also benefit from improving global economic conditions and the related pickup in demand for the provinces' natural resources. The completion of PotashCorp's Sussex mine and the expected resumption of operations at two other major mines should boost mining output. The first full-year of operation at the Canaport LNG facility should result in a marked increase in energy production. Finally, refurbishment work on Via Rails' fleet of passenger cars by Industrial Rail Services is expected to boost activity in the province's transportation equipment industry. Together, these factors should contribute to a significant improvement in the manufacturing sector – although the strong Canadian dollar may somewhat temper the pace of growth. We project growth to return in the New Brunswick economy in 2010 at 2.4% (downwardly revised from 2.9% in our *December Outlook*). The rate of expansion is forecasted to accelerate to 3.3% in 2011; however, it, too, has been revised lower (from 3.7%) to reflect the lack of major projects in the pipeline and fading governmental support.

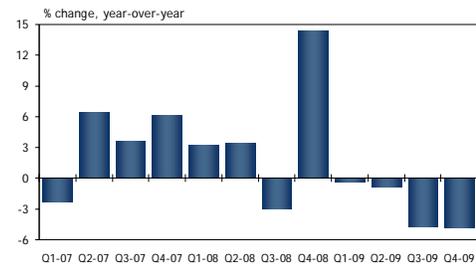
Nova Scotia – Stepping on the (natural) gas

Weak natural gas prices and declining production due to maintenance and the maturation of the Sable offshore natural gas field weighed heavily on the Nova Scotia's energy sector in 2009. This led nominal energy exports to plummet 60%. As a whole, international merchandise exports from Nova Scotia plunged almost 26%. The steep decline in the North American auto sector caused significant damage to Nova Scotia's key rubber and plastics industries, leading manufacturing shipments to fall by more than 15% in 2009. It was fortunate that the domestic side of the economy fared considerably better. Employment stayed flat because growth in the service sector and public administration compensated for job losses in manufacturing. This relatively strong labour market (compared to most jurisdictions in North America) supported retail sales in the province, making Nova Scotia one of only two provinces to see year-over-year growth in this area in 2009. Furthermore, non-residential investment in the province climbed by a substantial 10.5% thanks to continued work on the Deep Panuke offshore platform and the provincial government's \$800 million infrastructure stimulus plan. Overall, output growth in the province was level in 2009 (unchanged from our *December Outlook*), the second best result in Canada.

The resilience of the domestic economy during the downturn bodes well for a return to growth in 2010, with real GDP forecasted to grow by 2.2% (revised lower from 2.8% previously). Projected job gains of 0.9% should support decent growth in consumer spending. Retail sales are forecasted to increase by 4.5%, up from 0.4% in 2009. The anticipated strengthening of the U.S. economy and commodity prices is expected to provide significant support to the province's major exports, including forest products and energy. Production at Deep Panuke is projected to begin at the end of the year, which will be a positive development for natural gas production in the province. On the downside, growth in non-residential investment is likely to moderate significantly upon the completion of major projects. The recently released *Public and Private Investment Intentions* survey indicated that non-residential capital investment in the province is set to grow by only 1.1% in 2010, a sharp deceleration from 2009.



Prince Edward Island accommodation room-nights sold



Source: PEI Tourism, RBC Economics Research

The increased natural resource production (including the Donkin coal, which is scheduled to open early next year) and stronger international demand for these commodities should pave the way for Nova Scotia’s economy to expand further in 2011; however, the expected lull in capital expenditure and the winding down of government stimulus spending have led the 2011 GDP forecast to be revised down to 2.9% from 3.8% previously.

Prince Edward Island – Aerospace continues to soar

Prince Edward Island’s economy managed to weather last year’s turmoil better than most provinces, yet it was not able to avoid a contraction. Real GDP in the province fell by an estimated 0.1% (unchanged from our *December Outlook*) in 2009. The province benefited from concerted efforts to diversify its economy away from the traditional tourism and seafood sectors because these areas were hit particularly hard by the combination of the economic slowdown and the strong Canadian dollar. Tourist traffic, as measured by accommodation room-nights sold, dropped in each quarter on a year-over-year basis, while demand and prices for the province’s seafood were so weak that, despite record lobster landings and increased catches in all fishing areas, the total value of the 2009 catch was 25% below the previous year. On the flip side, farm cash receipts increased by 6.8% year-to-date through to September on the back of strong demand for potatoes (which account for more than half of the total receipts). The big economic story on ‘The Island’ has been the emergence of the technology sector, particularly aerospace manufacturing. The sector’s strong growth in recent years has elevated machinery and equipment to near the top of its exports product list, and now account for one-quarter of total exports in the province. In 2009, growth in this sector largely offset weakness in shipments and exports from other industries. Meanwhile, continued investment in the industry combined with the provincial government’s five-year, \$510 million capital spending plan jolted non-residential building construction up by nearly 33%.

The expanding product base of Prince Edward Island’s economy makes it well positioned to return to growth in 2010, with considerable support also provided by the \$133 million allocated by the government for capital projects. Nevertheless, continued strength in the Canadian dollar is still expected to weigh on tourism and create a bit of a headwind for manufacturing. Real GDP growth in the province is forecasted at 2.1% this year (revised marginally lower from 2.2% previously). As the global economy continues to improve next year, the pace is expected to increase to 3.2% in 2011 (also revised down from 3.4% in the *December Outlook*).

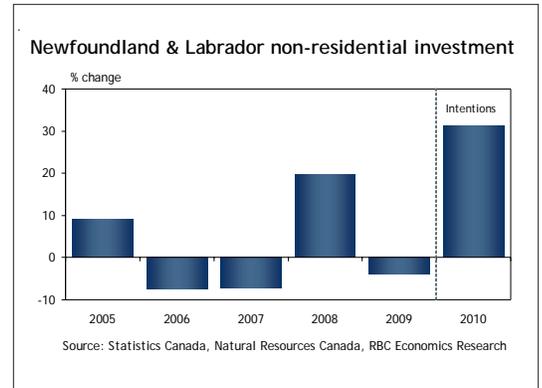
Newfoundland & Labrador – From the bottom to the top

Newfoundland and Labrador’s economy likely posted the sharpest decline in real GDP among provinces in 2009, estimated at 4.5% (unchanged from our *December Outlook*). This reflected huge drops in energy and mining production. Crude oil production fell 22%, and shipments of iron ore and nickel dropped 48% and a staggering 71%, respectively – although the latter stemmed from a prolonged labour strike. Employment in the province fell by 5,200, causing the unemployment rate to rise during most of the year; however, outside of energy and mining, the rest of the domestic economy fared surprisingly well. The province was one of only two to resist a decline in housing starts and led the

nation in retail sales growth in 2009.

From the bottom of the provincial growth ranking last year, Newfoundland and Labrador is expected to move to the top spot in 2010 with a projected GDP rate of 4.1% (revised up from 2.4% previously). This remarkable swing will reflect increased production of crude oil and other mineral products, and a sharp increase in capital spending. Stronger global demand for iron ore and the eventual settlement of the labour dispute at Voisey's Bay's nickel operations are expected to boost mining output significantly. The energy sector will benefit from stronger oil prices and increased production resulting from the expansion of the White Rose oilfield coming into operation. The recent *Public and Private Investment Intentions* survey revealed that growth in non-residential capital investment in the province will be the fastest in Canada, surging by an impressive 31.2%. This increase will be fuelled by stronger investment in mining, oil and gas extraction, utilities (related to the Lower Churchill Hydro development project) and the provincial government's aggressive infrastructure stimulus plan. An expected improvement in labour market conditions and continued low interest rates should further support demand for housing (both existing and new homes) – housing starts are forecasted to remain steady at 3,200 units for 2010, a historically high level – as well as sustaining solid growth in retail sales.

We expect growth in the provincial economy to moderate to 2.1% in 2011 (revised higher from 1.5% previously).



Forecast detail

Average annual % change unless otherwise indicated

	Real GDP				Employment				Unemployment rate				Housing starts				Retail sales				CPI			
									%				Thousands											
	08	09	10	11	08	09	10	11	08	09	10	11	08	09	10	11	08	09	10	11	08	09	10	11
N. & L.	0.5	-4.5	4.1	2.1	1.5	-2.4	1.5	1.7	13.2	15.4	15.5	14.9	3.2	3.2	3.2	3.1	7.6	2.6	4.3	5.4	2.9	0.3	1.9	2.2
P.E.I.	0.5	-0.1	2.1	3.2	1.3	-1.1	1.8	1.1	10.7	12.0	11.8	11.7	0.7	0.9	0.7	0.8	5.6	-0.3	4.0	4.3	3.4	-0.1	2.3	2.2
N.S.	2.2	0.0	2.2	2.9	1.2	-0.1	0.9	2.2	7.7	9.2	9.4	8.8	4.3	3.4	3.8	4.1	4.2	0.4	4.5	4.9	3.0	-0.1	2.1	2.2
N.B.	0.0	-0.3	2.4	3.3	0.9	0.1	0.7	1.6	8.6	8.9	9.1	8.7	4.2	3.5	3.8	3.5	5.9	-0.1	4.0	4.0	1.7	0.3	2.3	2.2
QUE.	1.0	-1.7	2.8	3.5	0.8	-1.0	1.2	2.0	7.2	8.5	8.3	8.0	47.9	44.0	45.5	43.5	5.1	-0.9	4.5	5.1	2.1	0.6	1.8	2.1
ONT.	-0.5	-3.2	3.3	4.1	1.4	-2.4	1.3	2.6	6.5	9.0	9.2	8.4	75.6	50.1	64.2	66.8	3.5	-2.5	3.8	5.6	2.3	0.4	2.0	2.2
MAN.	2.0	0.2	2.5	4.0	1.7	0.0	1.3	2.2	4.1	5.2	5.6	5.0	5.6	4.0	5.3	5.5	7.2	-0.9	5.2	5.8	2.2	0.6	1.7	2.1
SASK.	4.2	-3.0	3.6	4.6	2.2	1.5	1.2	2.7	4.1	4.8	4.8	4.5	6.8	3.8	4.4	4.4	10.6	-2.3	5.2	6.1	3.2	1.1	2.0	2.7
ALTA.	0.0	-3.7	2.5	4.4	2.7	-1.3	1.4	3.1	3.6	6.6	6.6	6.1	29.0	20.0	27.6	30.8	-0.1	-8.4	4.9	6.9	3.2	-0.1	1.7	1.8
B.C.	0.0	-2.5	3.4	3.4	2.1	-2.4	2.1	1.7	4.6	7.6	7.7	7.0	34.3	16.0	25.6	26.5	0.3	-5.1	5.9	4.4	2.1	0.0	1.3	2.1
CANADA	0.4	-2.6	3.1	3.9	1.5	-1.6	1.4	2.3	6.1	8.3	8.4	7.7	212	149	184	189	3.4	-3.0	4.5	5.5	2.4	0.3	1.8	2.1

Key provincial comparisons

2008 unless otherwise indicated

	<u>N. & L.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>QUE</u>	<u>ONT</u>	<u>MAN</u>	<u>SASK</u>	<u>ALTA</u>	<u>B.C.</u>
Population (000s) (2009)	509	141	938	749	7,829	13,069	1,222	1,030	3,688	4,455
Gross domestic product (\$ billions)	31.3	4.6	34.2	27.4	302.2	587.8	50.8	63.5	291.3	197.9
Real GDP (\$2002 billions)	20.0	4.1	29.2	23.4	269.7	532.2	42.4	41.6	185.8	164.5
Share of Canada real GDP (%)	1.5	0.3	2.2	1.8	20.4	40.3	3.2	3.1	14.1	12.5
Real GDP growth (CAR, last five years 03-08, %)	2.8	1.9	1.2	1.4	2.0	1.9	2.7	3.0	3.6	3.1
Real GDP per capita (\$)	39,206	29,422	31,140	31,157	34,445	40,722	34,704	40,367	50,379	36,928
Real GDP growth rate per capita (CAR, last five years 03-08, %)	3.2	1.6	1.3	1.5	1.3	0.8	2.0	2.6	1.1	1.8
Personal disposable income per capita (\$)	24,683	22,917	25,466	25,010	25,258	28,481	26,018	28,321	35,978	27,914
Employment growth (CAR, last five years 04-09, %)	0.1	0.8	0.5	0.9	0.9	0.7	1.0	1.6	2.5	1.8
Employment rate (January 2010, %)	50.7	61.6	57.7	58.5	59.7	61.1	65.9	66.2	68.5	60.9
CPI (% yoy, January 2010)	3.2	4.0	3.1	3.9	2.2	1.9	1.7	1.6	1.7	0.7
Manufacturing industry output (% of real GDP)	4.6	9.5	9.6	11.2	17.6	17.0	12.2	7.8	8.9	9.4
Personal expenditures goods & services (% of real GDP)	54.7	71.4	71.8	69.0	64.1	60.1	64.5	58.6	53.2	69.5
International exports (% of real GDP)	37.8	29.7	23.4	41.5	33.6	42.5	32.3	37.6	36.9	26.8

Source: Statistics Canada, RBC Economics Research

British Columbia

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	146,541	153,489	159,916	164,519	164,520	160,325	165,840	171,478
	% change	3.6	4.7	4.2	2.9	0.0	-2.5	3.4	3.4
Employment	thousands	2,063	2,131	2,195	2,266	2,314	2,259	2,307	2,347
	% change	2.4	3.3	3.0	3.2	2.1	-2.4	2.1	1.7
Unemployment rate	%	7.2	5.9	4.8	4.2	4.6	7.6	7.7	7.0
Retail sales	\$ millions	47,217	49,286	52,837	56,365	56,562	53,666	56,844	59,320
	% change	6.3	4.4	7.2	6.7	0.3	-5.1	5.9	4.4
Housing starts	units	32,925	34,667	36,443	39,195	34,250	16,042	25,600	26,500
	% change	25.8	5.3	5.1	7.6	-12.6	-53.2	59.6	3.5
Consumer price index	2002=100	104.2	106.3	108.1	110.0	112.3	112.3	113.8	116.1
	% change	2.0	2.0	1.7	1.7	2.1	0.0	1.3	2.1

Alberta

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	163,564	170,872	181,418	185,870	185,780	178,906	183,289	191,354
	% change	5.3	4.5	6.2	2.5	0.0	-3.7	2.5	4.4
Employment	thousands	1,757	1,784	1,871	1,959	2,013	1,988	2,016	2,079
	% change	2.4	1.5	4.8	4.7	2.7	-1.3	1.4	3.1
Unemployment rate	%	4.6	3.9	3.4	3.5	3.6	6.6	6.6	6.1
Retail sales	\$ millions	43,372	48,493	55,942	61,160	61,069	55,954	58,718	62,792
	% change	10.3	11.8	15.4	9.3	-0.1	-8.4	4.9	6.9
Housing starts	units	36,270	40,847	48,962	48,336	28,967	19,983	27,600	30,800
	% change	0.3	12.6	19.9	-1.3	-40.1	-31.0	38.1	11.6
Consumer price index	2002=100	105.9	108.1	112.3	117.9	121.6	121.5	123.5	125.8
	% change	1.4	2.1	3.9	4.9	3.2	-0.1	1.7	1.8

Saskatchewan

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	37,741	38,904	38,520	39,896	41,583	40,336	41,788	43,689
	% change	5.1	3.1	-1.0	3.6	4.2	-3.0	3.6	4.6
Employment	thousands	480	483	492	502	513	521	527	541
	% change	0.8	0.8	1.7	2.1	2.2	1.5	1.2	2.7
Unemployment rate	%	5.3	5.1	4.7	4.2	4.1	4.8	4.8	4.5
Retail sales	\$ millions	10,259	10,796	11,495	12,984	14,360	14,035	14,766	15,662
	% change	4.1	5.2	6.5	13.0	10.6	-2.3	5.2	6.1
Housing starts	units	3,781	3,437	3,715	6,007	6,792	3,792	4,400	4,400
	% change	14.1	-9.1	8.1	61.7	13.1	-44.2	16.0	0.0
Consumer price index	2002=100	104.6	106.9	109.1	112.2	115.9	117.1	119.4	122.7
	% change	2.2	2.2	2.0	2.9	3.2	1.1	2.0	2.7

Manitoba

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	37,861	38,860	40,158	41,593	42,407	42,492	43,554	45,274
	% change	2.2	2.6	3.3	3.6	2.0	0.2	2.5	4.0
Employment	thousands	577	580	587	596	607	607	615	628
	% change	1.1	0.6	1.1	1.6	1.7	0.0	1.3	2.2
Unemployment rate	%	5.3	4.8	4.3	4.4	4.1	5.2	5.6	5.0
Retail sales	\$ millions	11,692	12,381	12,870	14,008	15,017	14,878	15,649	16,564
	% change	6.7	5.9	3.9	8.8	7.2	-0.9	5.2	5.8
Housing starts	units	4,440	4,731	5,028	5,738	5,550	4,042	5,300	5,500
	% change	5.6	6.6	6.3	14.1	-3.3	-27.2	31.1	3.8
Consumer price index	2002=100	103.8	106.6	108.7	110.9	113.4	114.1	116.0	118.5
	% change	1.9	2.7	1.9	2.1	2.2	0.6	1.7	2.1

Ontario

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	496,780	510,509	522,845	534,880	532,209	515,444	532,660	554,499
	% change	2.6	2.8	2.4	2.3	-0.5	-3.2	3.3	4.1
Employment	thousands	6,317	6,398	6,493	6,594	6,687	6,526	6,609	6,780
	% change	1.7	1.3	1.5	1.6	1.4	-2.4	1.3	2.6
Unemployment rate	%	6.8	6.6	6.3	6.4	6.5	9.0	9.2	8.4
Retail sales	\$ millions	129,086	135,321	140,808	146,252	151,375	147,611	153,239	161,757
	% change	3.2	4.8	4.1	3.9	3.5	-2.5	3.8	5.6
Housing starts	units	85,114	78,795	73,417	68,123	75,567	50,050	64,200	66,800
	% change	-0.1	-7.4	-6.8	-7.2	10.9	-33.8	28.3	4.0
Consumer price index	2002=100	104.6	106.9	108.8	110.8	113.3	113.7	116.0	118.6
	% change	1.9	2.2	1.8	1.8	2.3	0.4	2.0	2.2

Quebec

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	251,028	255,559	259,853	267,033	269,665	264,973	272,392	281,926
	% change	2.7	1.8	1.7	2.8	1.0	-1.7	2.8	3.5
Employment	thousands	3,680	3,717	3,765	3,852	3,882	3,844	3,891	3,970
	% change	1.4	1.0	1.3	2.3	0.8	-1.0	1.2	2.0
Unemployment rate	%	8.5	8.3	8.0	7.2	7.2	8.5	8.3	8.0
Retail sales	\$ millions	78,518	82,533	86,709	90,663	95,321	94,440	98,729	103,801
	% change	4.2	5.1	5.1	4.6	5.1	-0.9	4.5	5.1
Housing starts	units	58,448	50,910	47,877	48,553	47,925	44,008	45,500	43,500
	% change	16.2	-12.9	-6.0	1.4	-1.3	-8.2	3.4	-4.4
Consumer price index	2002=100	104.5	106.9	108.7	110.4	112.7	113.4	115.4	117.8
	% change	1.9	2.3	1.7	1.6	2.1	0.6	1.8	2.1

New Brunswick

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	22,366	22,638	23,254	23,356	23,351	23,281	23,828	24,614
	% change	2.8	1.2	2.7	0.4	0.0	-0.3	2.4	3.3
Employment	thousands	350	351	355	363	366	366	369	375
	% change	2.0	0.1	1.4	2.1	0.9	0.1	0.7	1.6
Unemployment rate	%	9.8	9.7	8.8	7.5	8.6	8.9	9.1	8.7
Retail sales	\$ millions	7,963	8,326	8,814	9,318	9,872	9,866	10,262	10,667
	% change	1.7	4.6	5.9	5.7	5.9	-0.1	4.0	4.0
Housing starts	units	3,947	3,959	4,085	4,242	4,175	3,483	3,800	3,500
	% change	-12.1	0.3	3.2	3.8	-1.6	-16.6	9.1	-7.9
Consumer price index	2002=100	104.9	107.4	109.2	111.3	113.2	113.5	116.2	118.7
	% change	1.4	2.4	1.7	1.9	1.7	0.3	2.3	2.2

Nova Scotia

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	27,710	28,016	28,254	28,598	29,215	29,215	29,843	30,709
	% change	0.9	1.1	0.8	1.2	2.2	0.0	2.2	2.9
Employment	thousands	442	443	442	448	453	453	457	467
	% change	2.6	0.2	-0.3	1.3	1.2	-0.1	0.9	2.2
Unemployment rate	%	8.8	8.4	7.9	8.0	7.7	9.2	9.4	8.8
Retail sales	\$ millions	10,297	10,527	11,163	11,636	12,129	12,173	12,716	13,338
	% change	2.8	2.2	6.0	4.2	4.2	0.4	4.5	4.9
Housing starts	units	4,717	4,775	4,896	4,750	4,267	3,408	3,800	4,100
	% change	-7.4	1.2	2.5	-3.0	-10.2	-20.1	11.5	7.9
Consumer price index	2002=100	105.3	108.2	110.4	112.5	115.9	115.7	118.1	120.7
	% change	1.8	2.8	2.1	1.9	3.0	-0.1	2.1	2.2

Prince Edward Island

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	3,877	3,921	4,026	4,126	4,148	4,144	4,231	4,366
	% change	2.6	1.1	2.7	2.5	0.5	-0.1	2.1	3.2
Employment	thousands	67	68	69	69	70	69	71	72
	% change	1.3	1.9	0.6	1.1	1.3	-1.1	1.8	1.1
Unemployment rate	%	11.2	10.8	11.1	10.3	10.7	12.0	11.8	11.7
Retail sales	\$ millions	1,385	1,424	1,512	1,629	1,721	1,715	1,783	1,861
	% change	0.1	2.8	6.2	7.7	5.6	-0.3	4.0	4.3
Housing starts	units	919	862	738	750	700	858	720	780
	% change	12.9	-6.2	-14.4	1.6	-6.7	22.6	-16.1	8.3
Consumer price index	2002=100	105.8	109.1	111.6	113.6	117.5	117.3	120.0	122.7
	% change	2.2	3.2	2.2	1.8	3.4	-0.1	2.3	2.2

Newfoundland & Labrador

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	\$2002 millions	17,209	17,593	18,201	19,856	19,953	19,055	19,827	20,243
	% change	-1.2	2.2	3.5	9.1	0.5	-4.5	4.1	2.1
Employment	thousands	214	214	216	217	220	215	218	222
	% change	1.0	-0.1	0.7	0.7	1.5	-2.4	1.5	1.7
Unemployment rate	%	15.7	15.2	14.8	13.6	13.2	15.4	15.5	14.9
Retail sales	\$ millions	5,755	5,826	6,026	6,567	7,063	7,244	7,553	7,959
	% change	0.3	1.2	3.4	9.0	7.6	2.6	4.3	5.4
Housing starts	units	2,870	2,498	2,234	2,649	3,233	3,167	3,200	3,100
	% change	6.6	-13.0	-10.6	18.6	22.1	-2.1	1.1	-3.1
Consumer price index	2002=100	104.8	107.6	109.5	111.1	114.3	114.6	116.8	119.4
	% change	1.8	2.6	1.8	1.4	2.9	0.3	1.9	2.2

Source: Statistics Canada, RBC Economics Research

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