

ATLANTIC CANADA CONTINUES TO GROW: RBC ECONOMICS

Newfoundland and Labrador economy proving rock solid in 2011

TORONTO, March 11, 2011 — Growing global demand for commodities and strong capital investment will fuel Atlantic Canada's economy in 2011, with Newfoundland and Labrador once again leading the way in terms of growth, according to the latest Provincial Outlook issued today by RBC Economics.

Canada's eastern-most province is expected to see its economy grow by 4.5 per cent this year, the second fastest growth rate in Canada behind Saskatchewan. Solid global demand for Newfoundland and Labrador's natural resources supported a sharp rebound in activity when exports of iron ore more than doubled in 2010. The RBC report forecasts that metals output will be further boosted this year by the start of production of new iron ore mining operations in the province and the end of the labour dispute at the Voisey's Bay nickel mine.

"Growth in the natural resource sector has provided significant benefits for the rest of the Newfoundland and Labrador economy," said Craig Wright, senior vice-president and chief economist, RBC. "We expect growth in related employment and earnings to continue over the next two years, although at a slightly more moderate pace."

The favourable commodities outlook has also led to a surge in private investment, which grew to 33 per cent in 2010 and is scheduled to soar again by 27 per cent in 2011. "With several major projects in the pipeline – including the \$10 billion Lower Churchill project – we expect the investment boom to extend into 2012 and beyond," added Wright.

The RBC report indicated that declining oil production will be a negative factor on 2012 growth overall, restraining it to just 1.5 per cent, but that continued investment and a strong commodities outlook bode well for the province's long-term prospects.

Canada's smallest province is expected to have the Atlantic region's second highest economic growth this year. RBC forecasts that Prince Edward Island's real GDP will grow by 2.2 per cent in both 2011 and 2012, driven in part by a strengthening U.S. economy and high levels of government capital spending. In addition, the provincial economy will benefit from higher expected prices for two of the Island's major food manufacturing exports – seafood and potatoes.

"Record levels of public capital spending helped to keep PEI's economy growing last year, while its manufacturing and tourism industries began to regain their footing," noted Wright. "We expect the government to maintain high spending levels again this year and believe the private sector will chip in more meaningfully with improved prospects in export markets."

The RBC report is projecting that New Brunswick's real GDP will only grow by 1.9 per cent in 2011, but will re-accelerate in 2012 with a 2.3 per cent rate.

"The good news for New Brunswick is the significant strength that its manufacturing and natural resource sectors displayed in 2010," Wright noted. "We believe that a sustained global recovery should keep this province's commodity sector firm over the next two years."

Energy exports were up 32 per cent in nominal terms over the course of 2010, largely due to the first full year of operations at the Canaport liquefied natural gas terminal. Forestry and industrial goods exports also both rose by more than 20 per cent, while agricultural exports grew by 5.4 per cent.

"Looking toward 2012, we expect growing contributions from the commodities sector, with projects such as the upcoming Sussex potash mine providing new avenues of growth for the provincial economy," said Wright. "A somewhat lackluster domestic economy, however, will temper growth in 2011."

At 1.5 per cent, Nova Scotia will see the weakest growth in real GDP among the provinces in 2011, weighed down by soft energy exports and a lagging labour market.

"Nova Scotia is facing a fairly challenging year in 2011," Wright explained. "While we expect that export growth will continue to provide support for the province's manufacturing and forestry sectors, weakened construction activity and reduced government spending will keep overall output growth subdued."

The RBC report is forecasting a somewhat more robust economic outlook for Nova Scotia in 2012, however, with new natural gas production capacity kicking in and new construction driving growth to 2.0 per cent.

"We do see a brighter future further down the road, with energy production from the Deep Panuke natural gas field beginning at the end of 2011," Wright noted. "We're forecasting that this production, combined with continued global growth and stronger construction activity, will put the province on a stronger growth path in 2012."

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, retail sales and housing starts.

The full report and provincial details are available online as of 8 a.m. ET today www.rbc.com/economics/market/pdf/provfcst.pdf.

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