

Economic outlook 2009-2010

On our way to recovery

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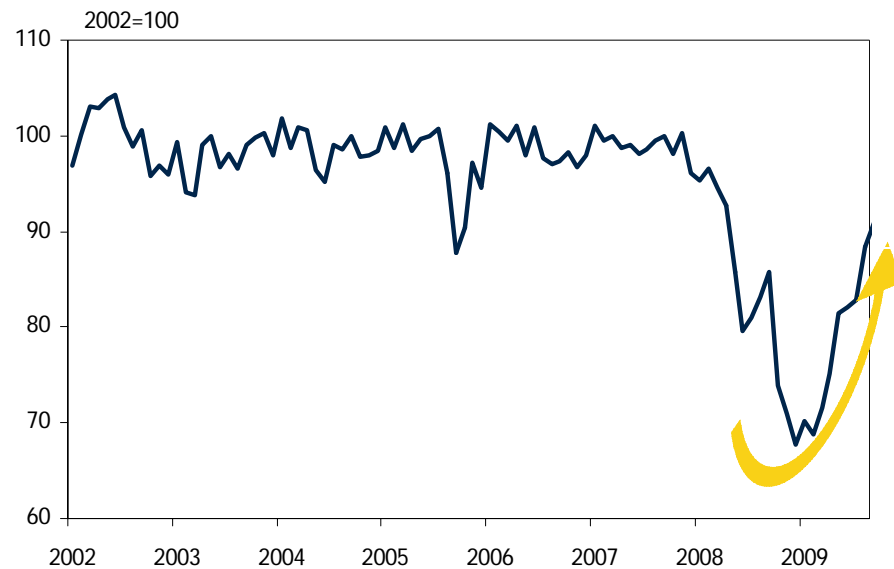
NACM-Canada Conference, Toronto, October 22, 2009



We're finally seeing light!

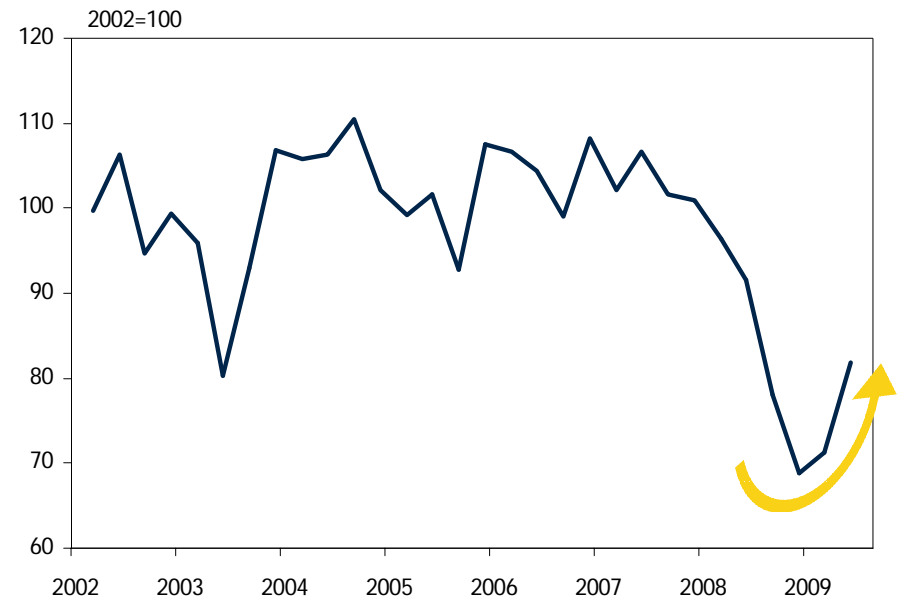
Confidence is coming back

Canadian consumer confidence



Source: Conference Board of Canada, RBC Economics Research

Canadian business confidence

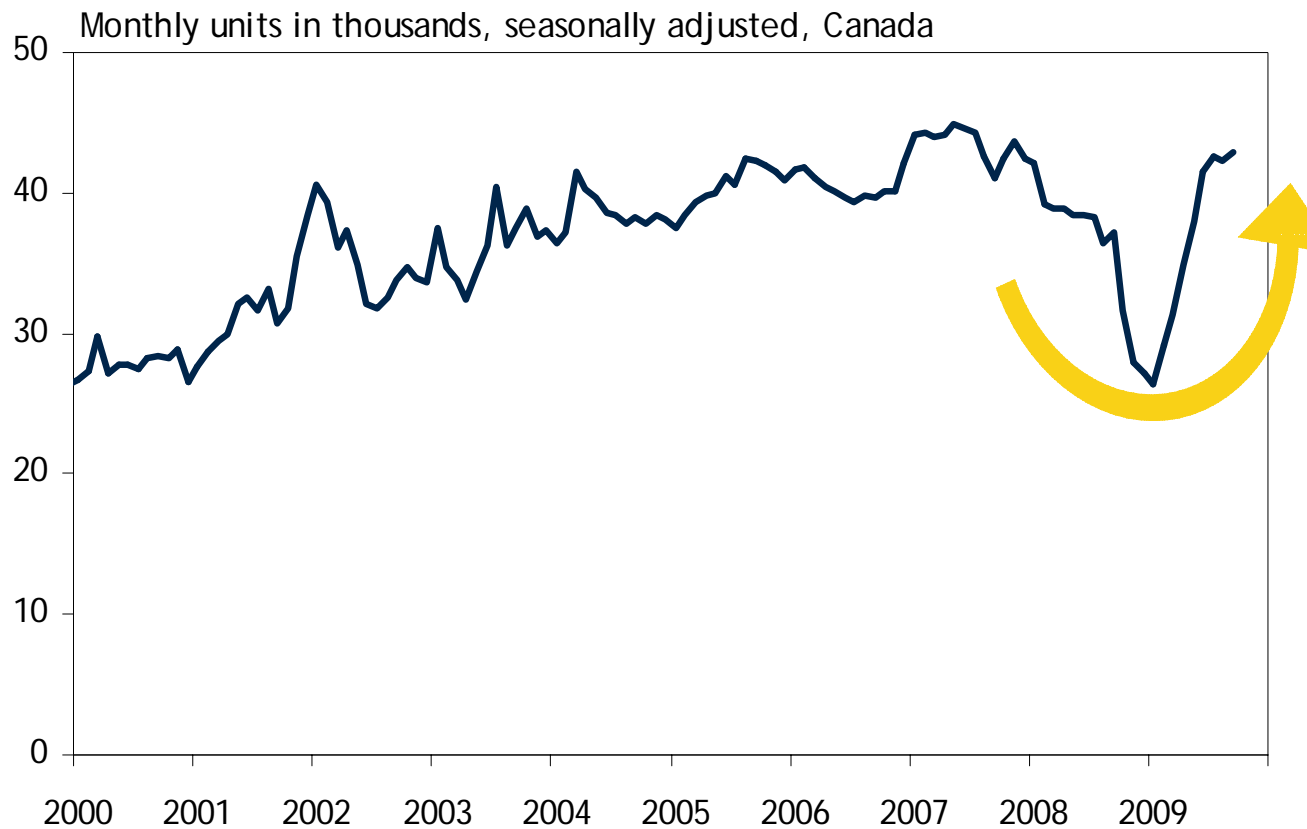


Source: Conference Board of Canada, RBC Economics Research

Canadian households return from hibernation

Spectacular rebound in housing market since the winter lows

Home sales

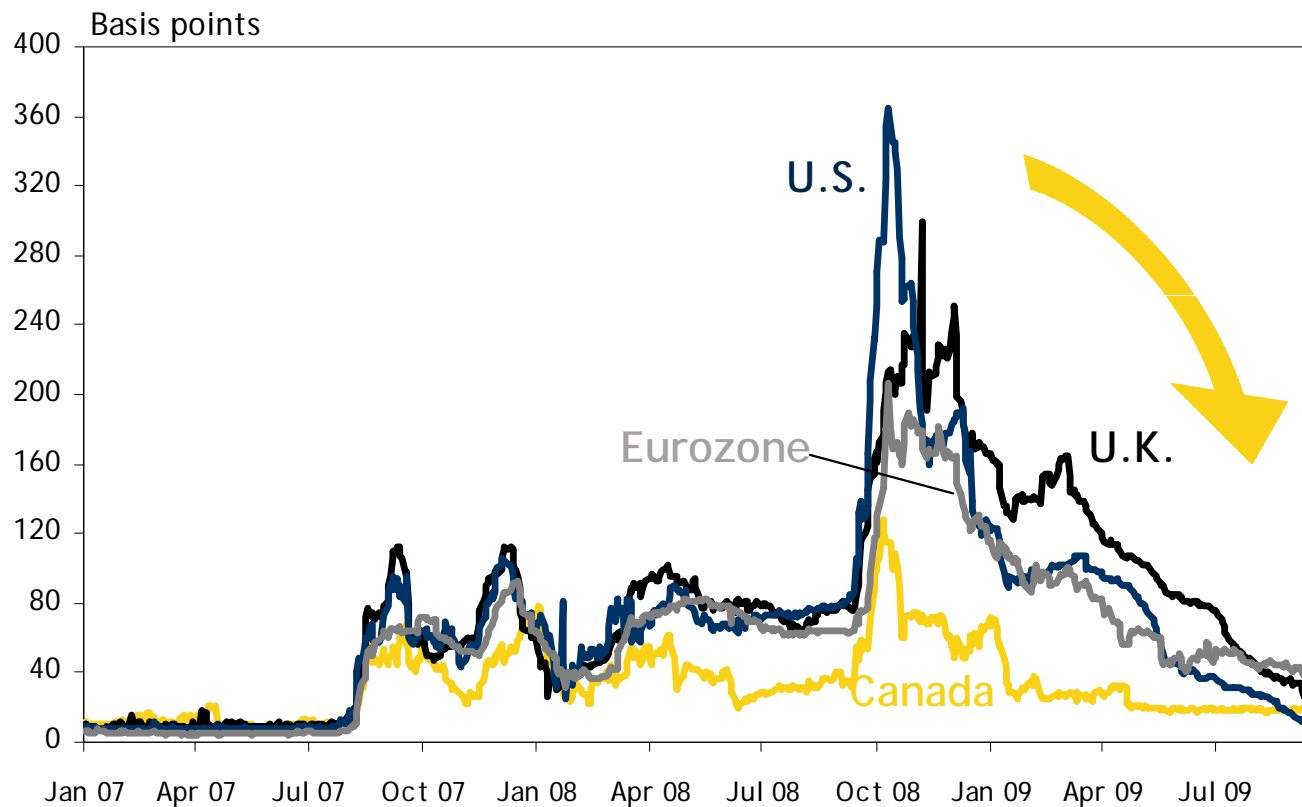


Source: CREA, RBC Economics Research

Improving mood reflects abating financial crisis,...

Credit spreads largely repaired

Short-term funding spreads 3 month LIBOR vs. OIS

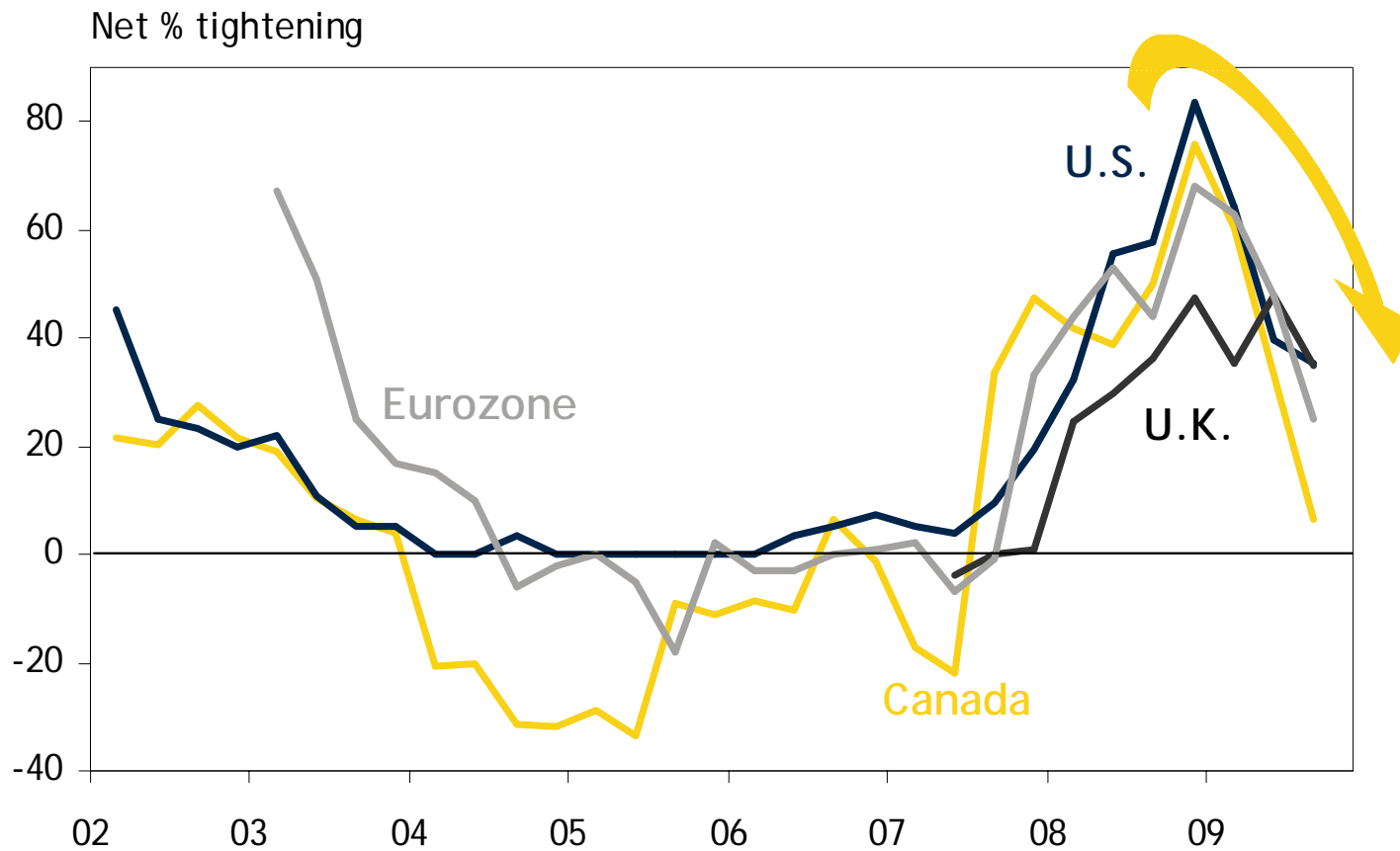


Source: Bloomberg, RBC Economics Research

...improving credit conditions,...

Credit standards are easing

Credit standards



Source: Federal Reserve Board, European Central Bank, Bank of England, Bank of Canada, RBC Economics Research

...impressive surge in equity markets,...

Global stocks are up 70% since March low

MSCI world stock index

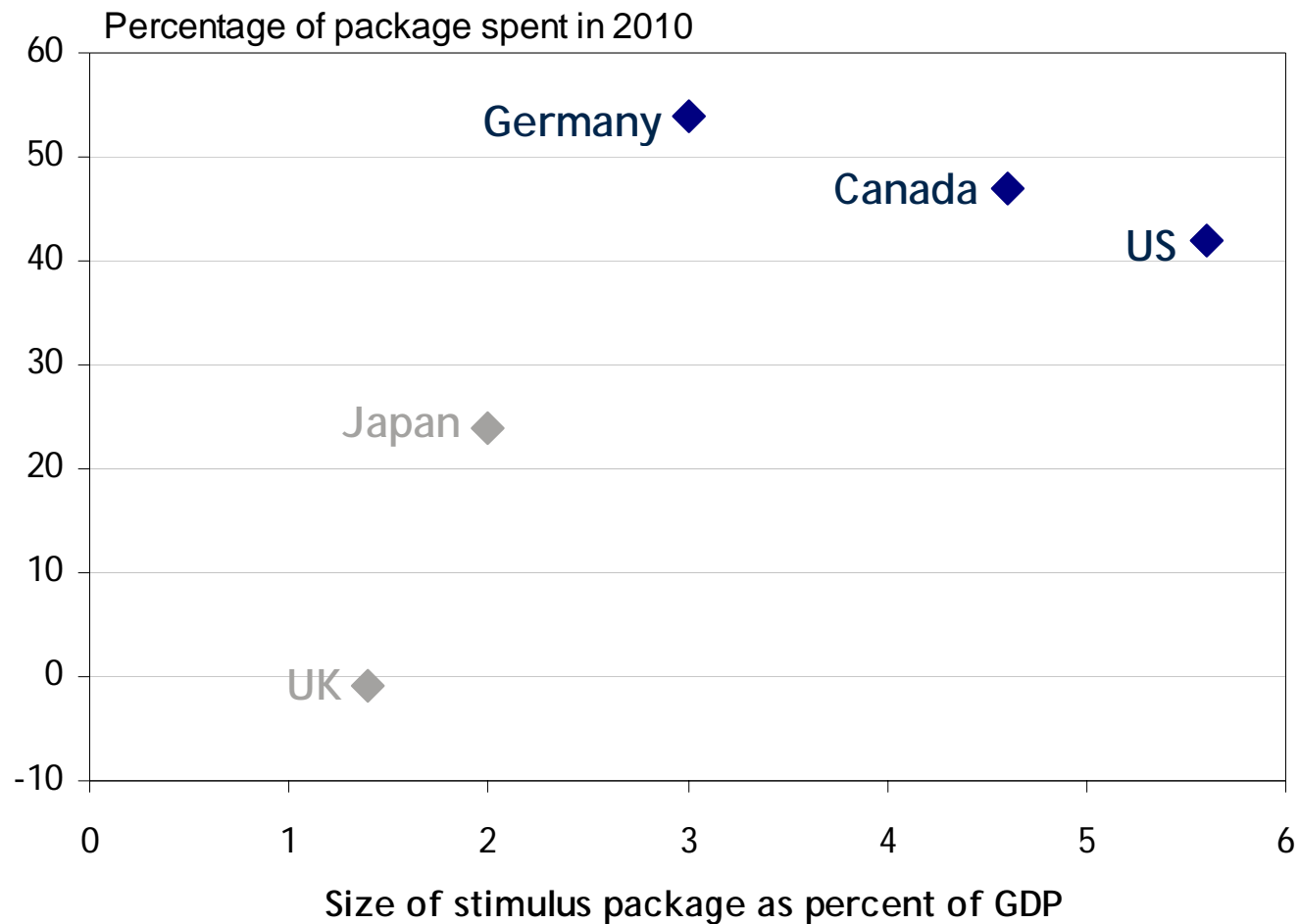


Source: Bloomberg, RBC Economics Research

...strong fiscal stimulus action now kicking in,...

Government spending in top gear in the US, Canada and elsewhere

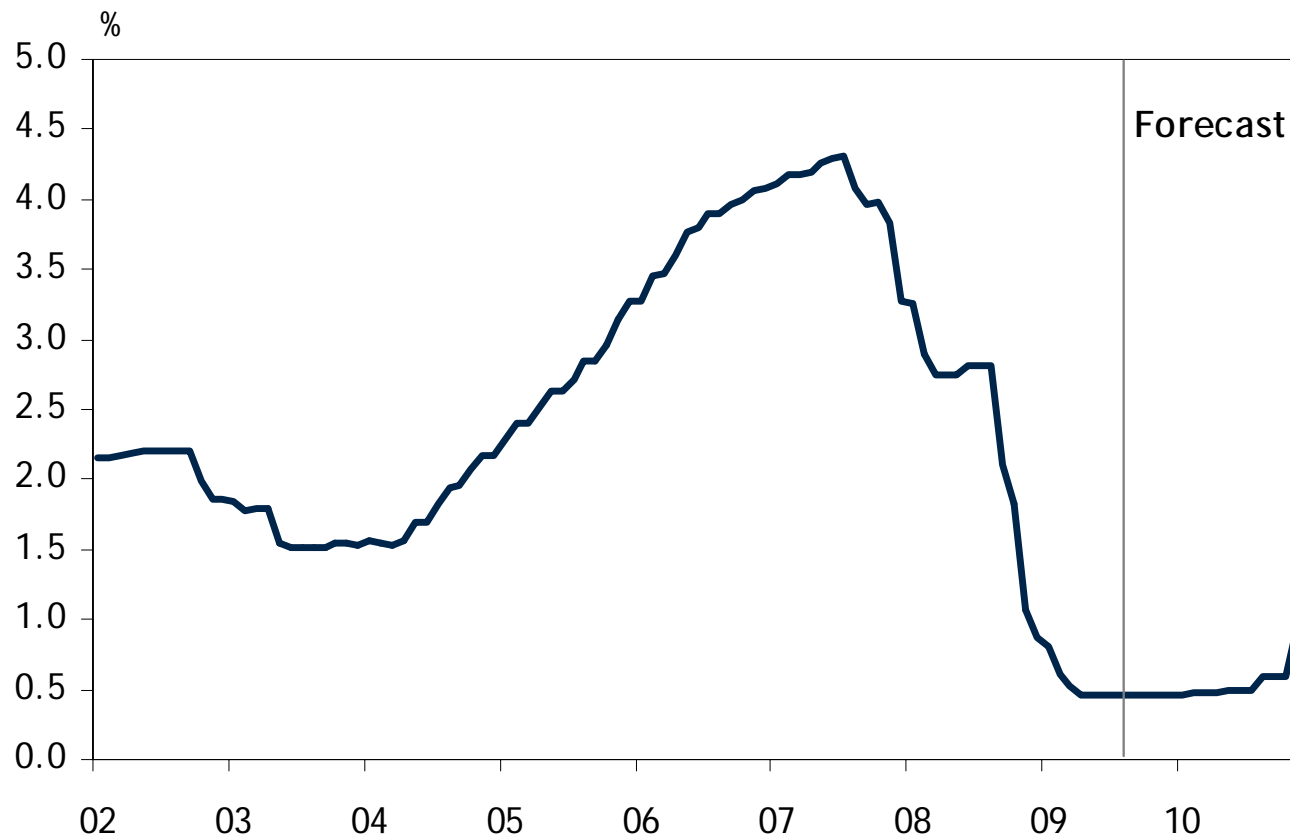
Fiscal support around the world



...,as well as huge monetary stimulus...

Monetary policy is being maintained at extremely accommodative levels

Weighted Policy Rate*



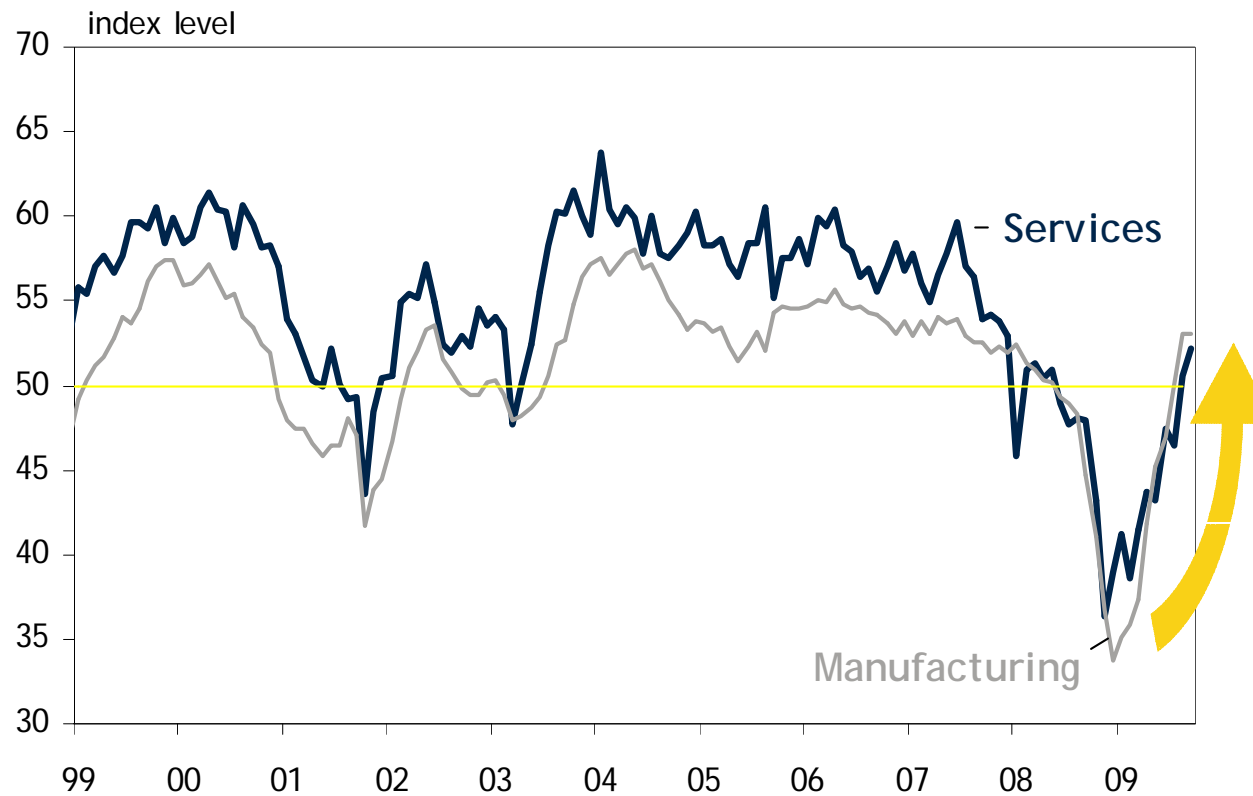
*target policy rate weighted by 2007 GDP in USD terms; US, JP, DE, UK, FR, IT, CA, AUC

Source :Economics Research, Haver Analytics

...and signs that the global economy is starting to turn

Leading indicators have begun to point up in recent months

Global ISM indices

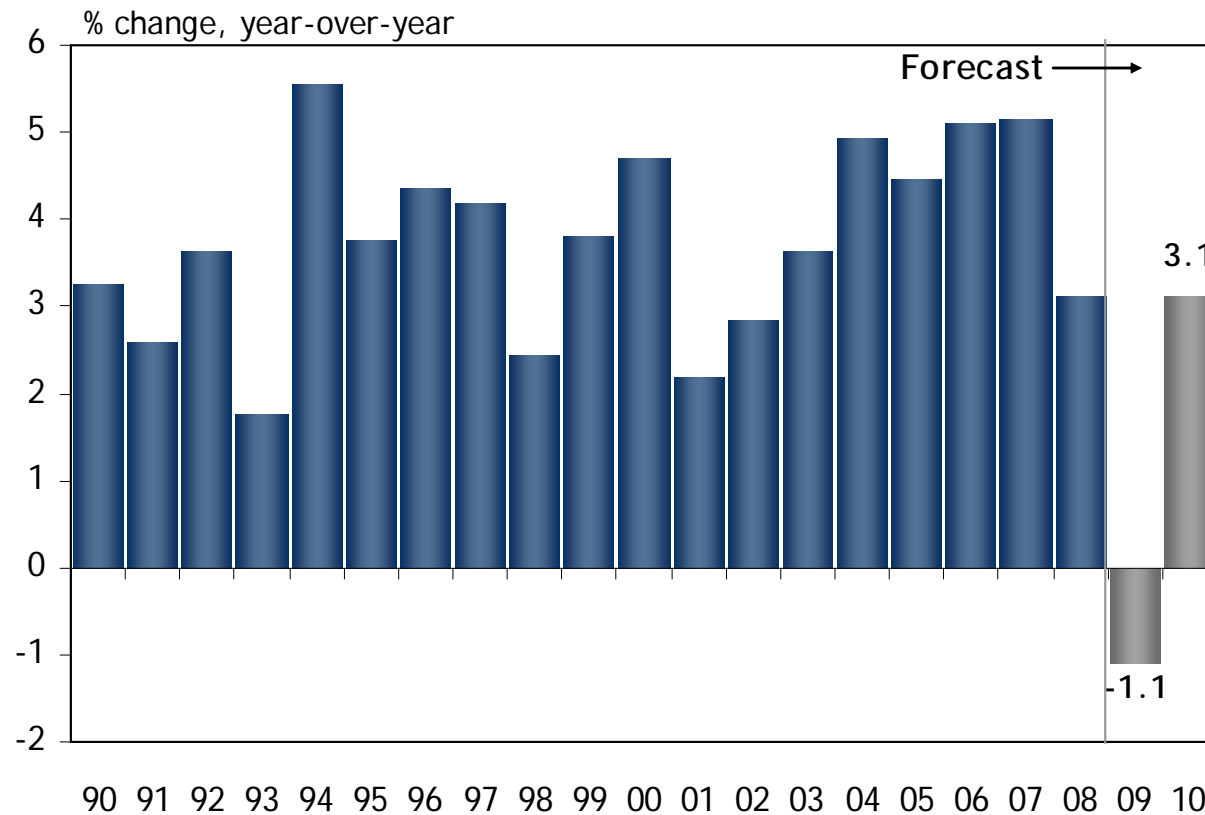


Source: JP Morgan, RBC Economics Research

Global expansion forecast next year

IMF has even upgraded its 2010 projection

World GDP growth

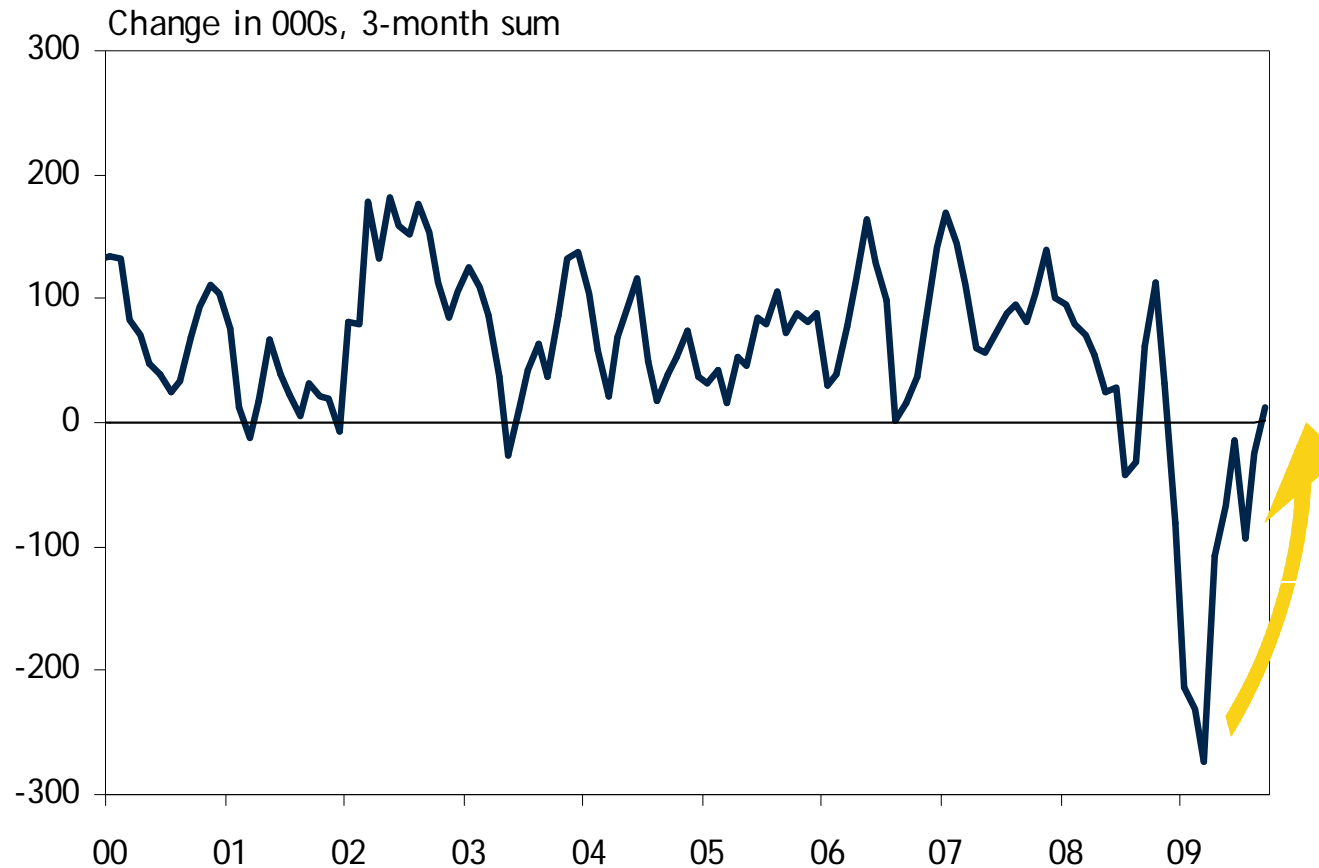


Source: International Monetary Fund, RBC Economics Research

In Canada, growing sense that the worst has passed

Job market losses have recently stopped

Canada's job market

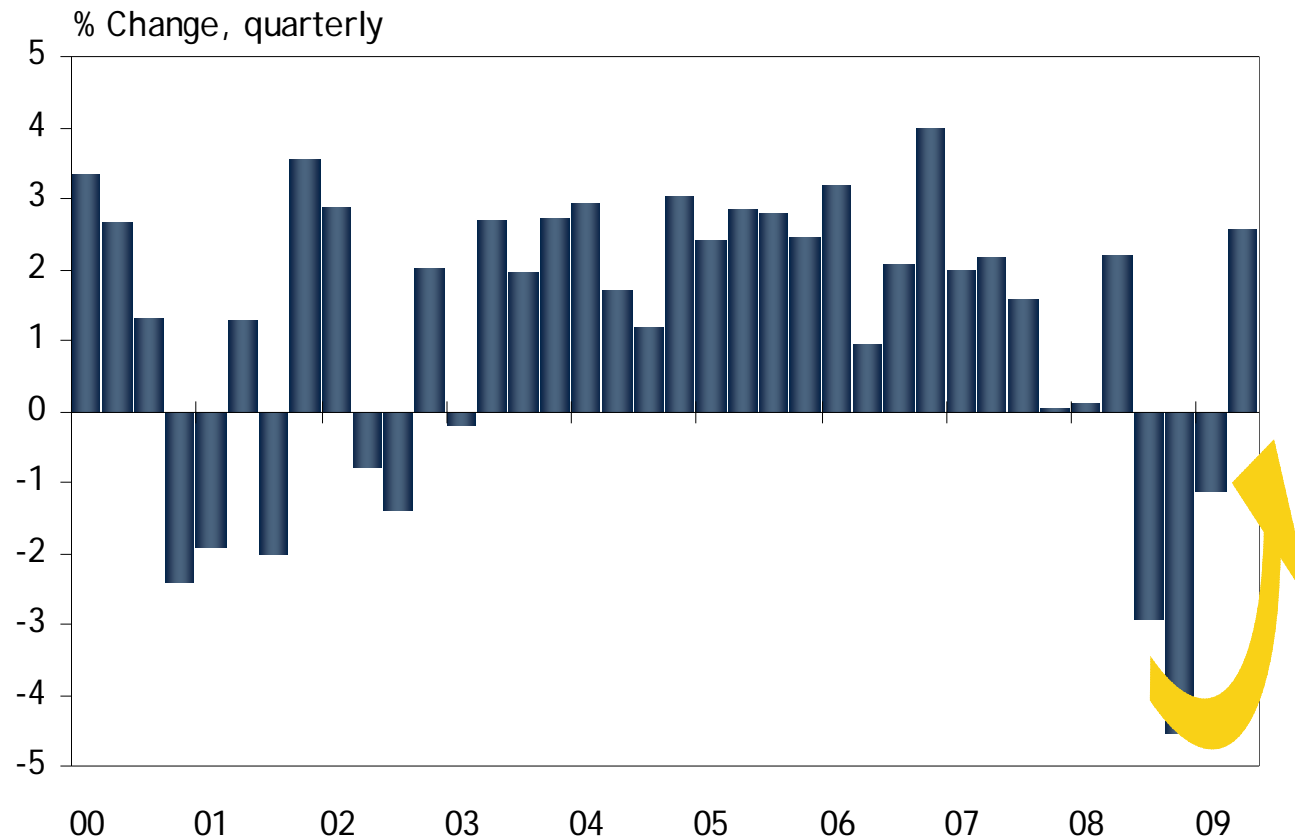


Source: Statistics Canada, RBC Economics Research

The drop in household asset values has ended

Equity portfolios and home values are showing gains again

Net worth of Canadians



Source: Statistics Canada, RBC Economics Research

Overall financial conditions are very positive

Low rates, better credit conditions, narrowing spreads, rebounding stocks

Financial conditions index

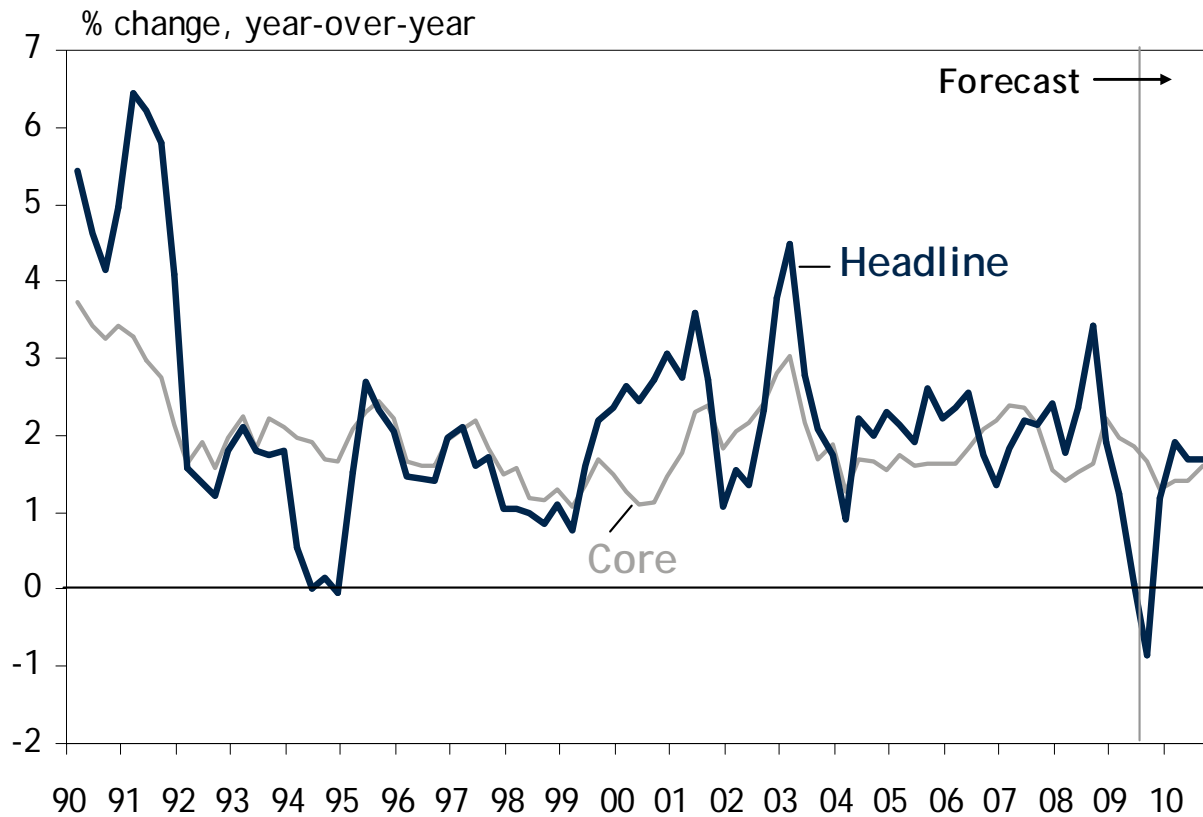


Source: Bank of Canada, RBC Economics Research

Inflation is low...

Persistent slack in the economy dampens upward price pressure

Canadian inflation

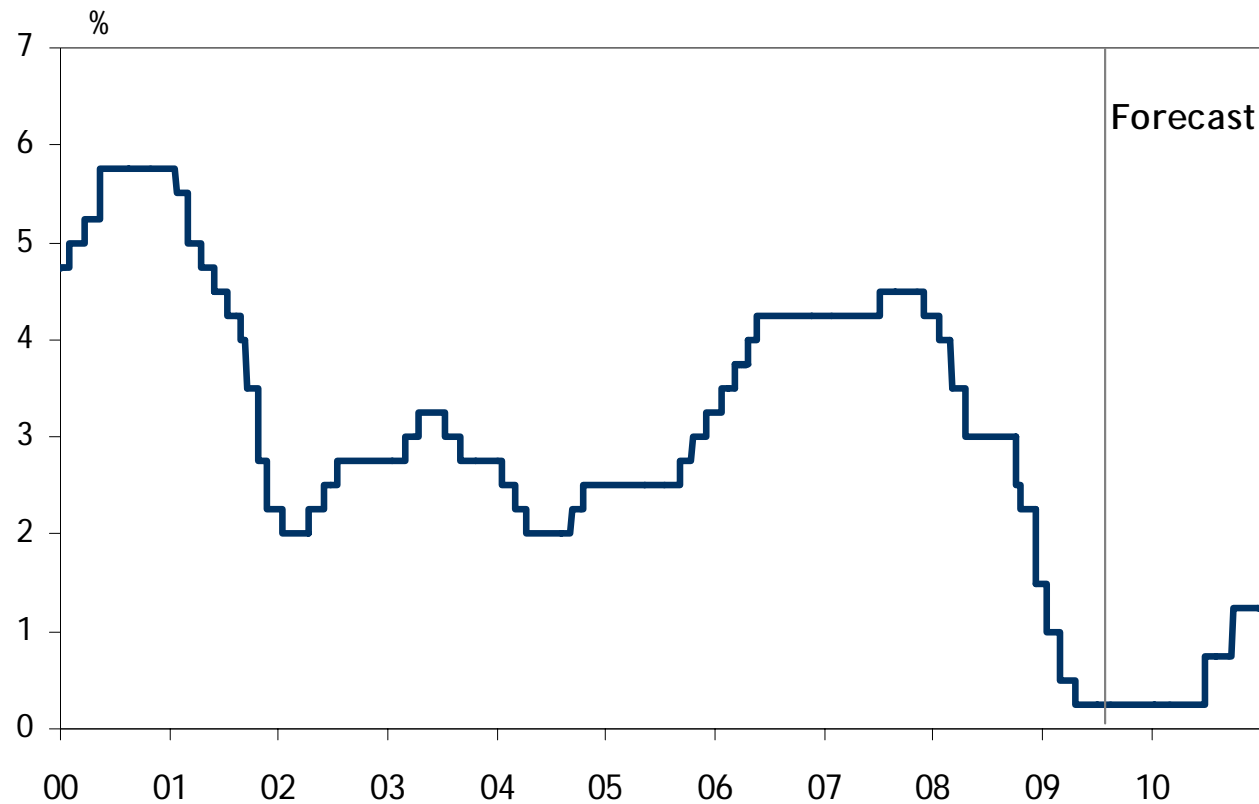


Source: Statistics Canada, RBC Economics Research

...providing room for short-term rates to stay super low

Bank of Canada rate expected to stay at its current level until mid-2010

Bank of Canada overnight rate

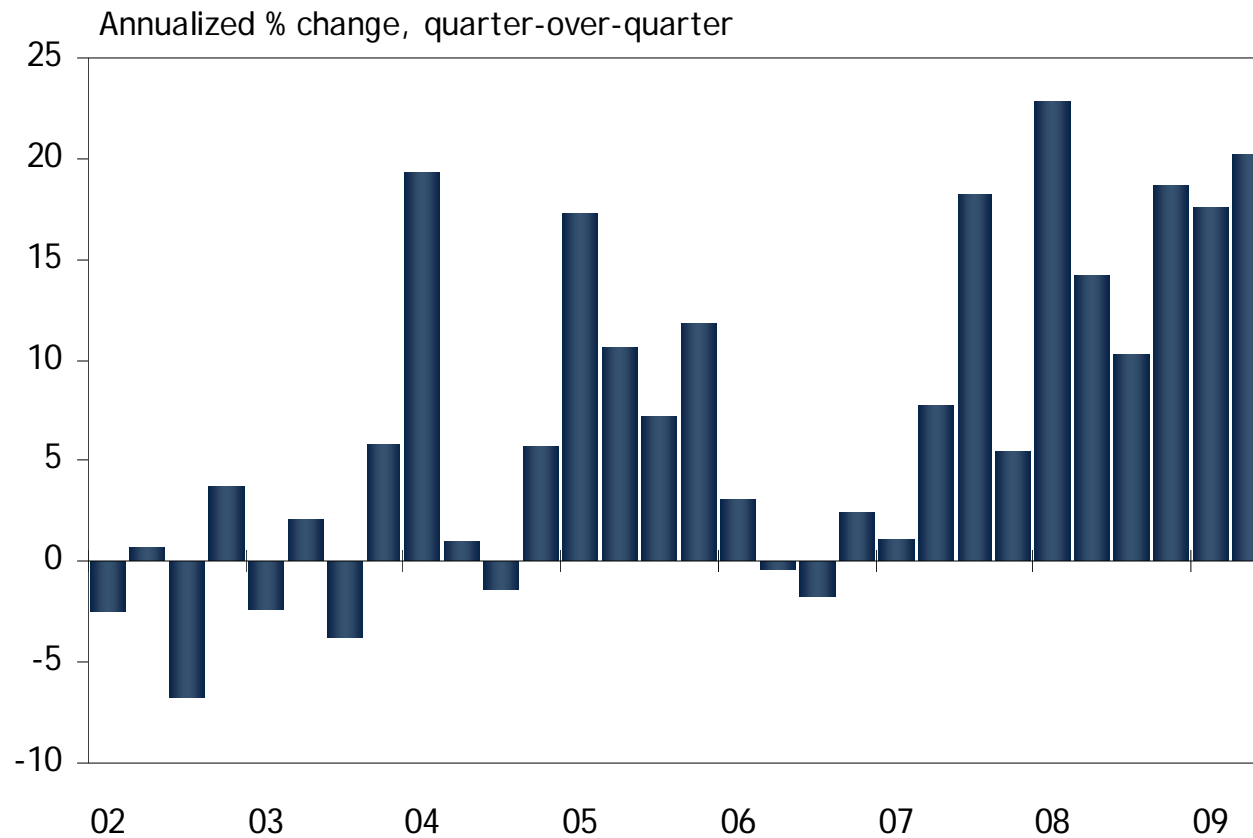


Source: Bank of Canada, RBC Economics Research

Public spending on infrastructure in high gear

Hefty stimulus programs have a visible impact

Government fixed investment



Source: Statistics Canada, RBC Economics Research

Consensus emerging that the recession is over

Bank of Canada, RBC and others have called the end of the contraction

Canada's real GDP

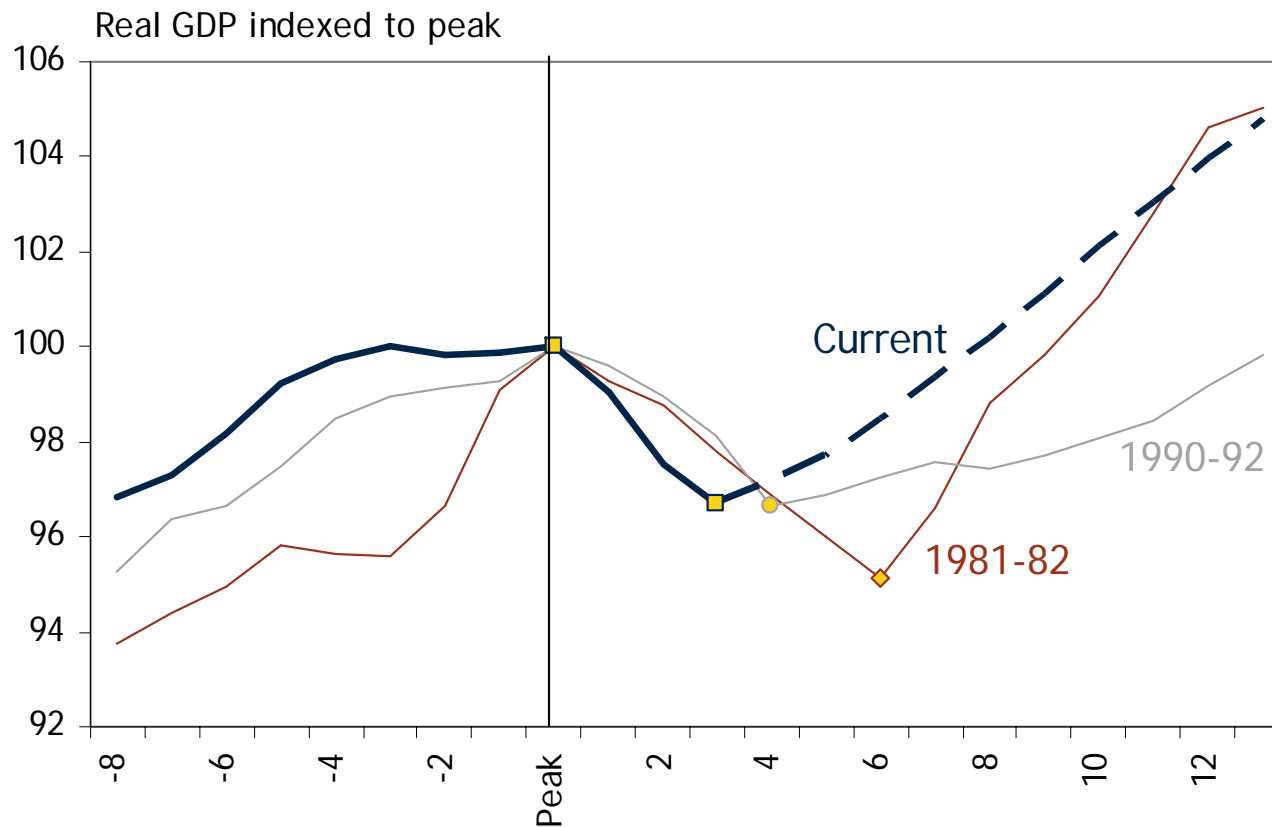


Source: Statistics Canada, RBC Economics Research

Recession will have been less severe than feared...

Shorter and shallower than the previous two recessions

Comparing recessions in Canada

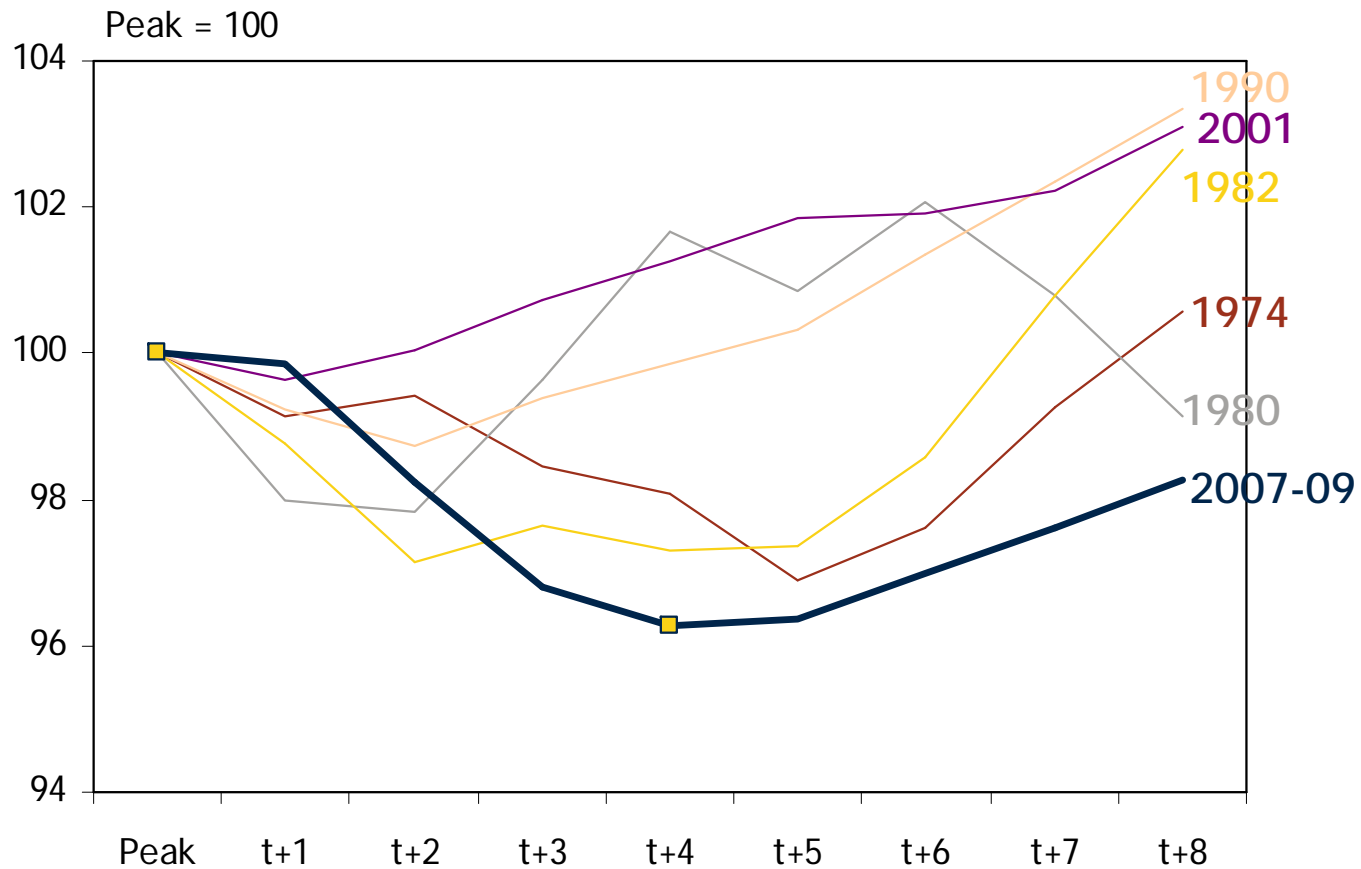


Source: Statistics Canada, RBC Economics Research

...and not as deep as that in the U.S.

U.S. recession is the worst since the Great Depression

U.S. recessions compared



Source: Bureau of Economic Analysis, RBC Economics Research

Fewer imbalances in Canada than in the U.S.

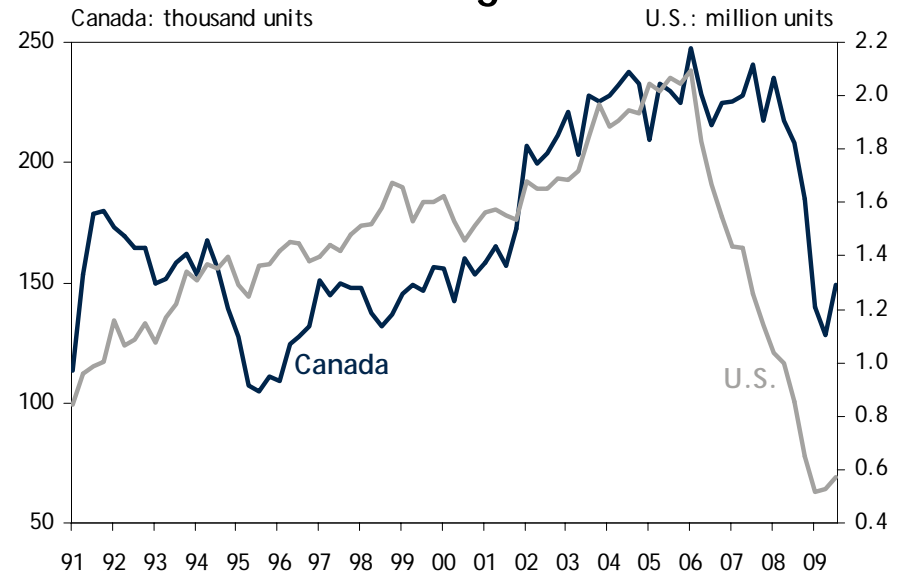
Financial sector, housing in better shape north of the border

Housing prices



Source: CREA, National Association of Realtors, RBC Economics Research

Housing starts

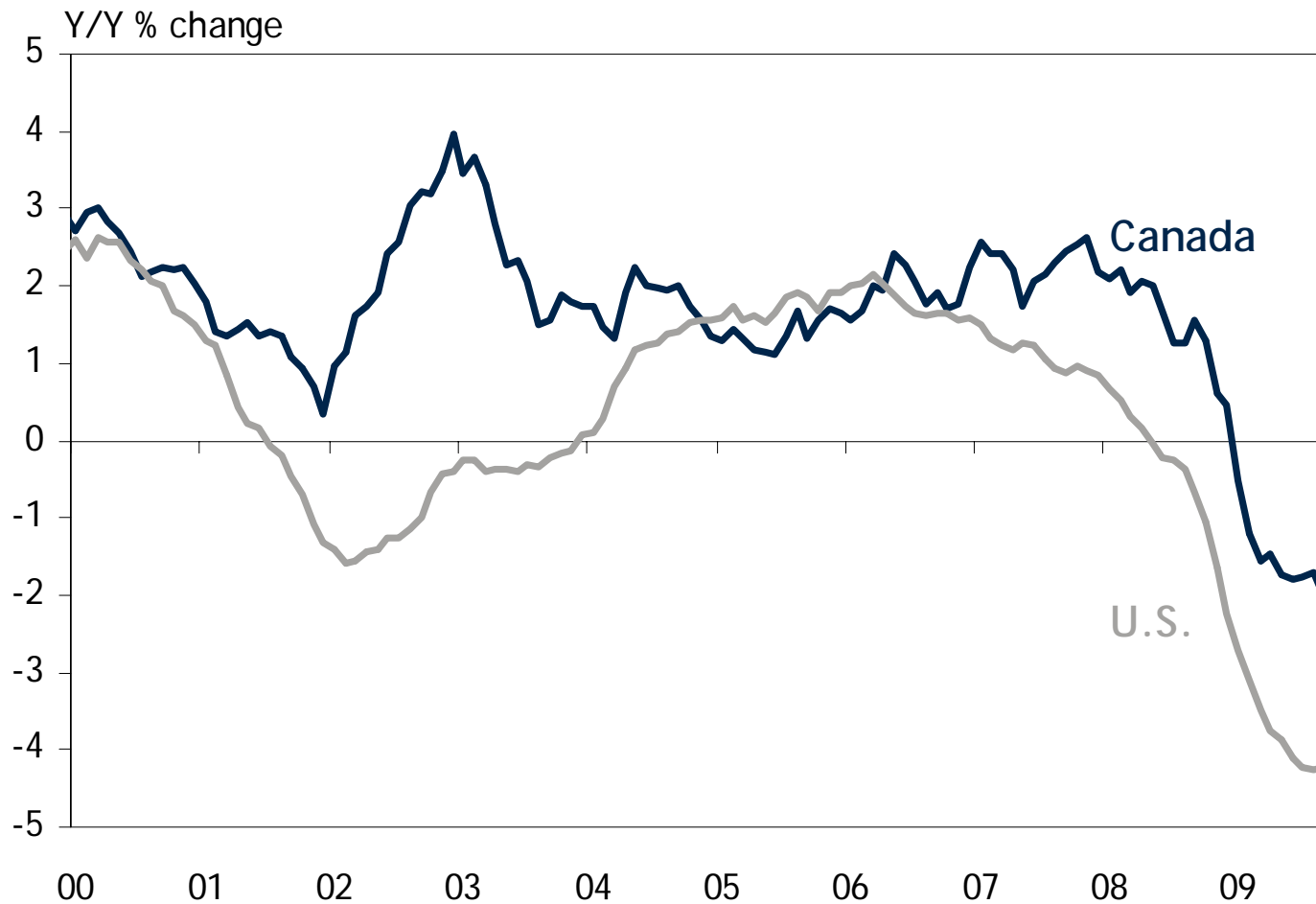


Source: Statistics Canada, Census Bureau, RBC Economics Research

Labour market not as badly hit in Canada

Job losses started later and were not as deep

Change in Employment

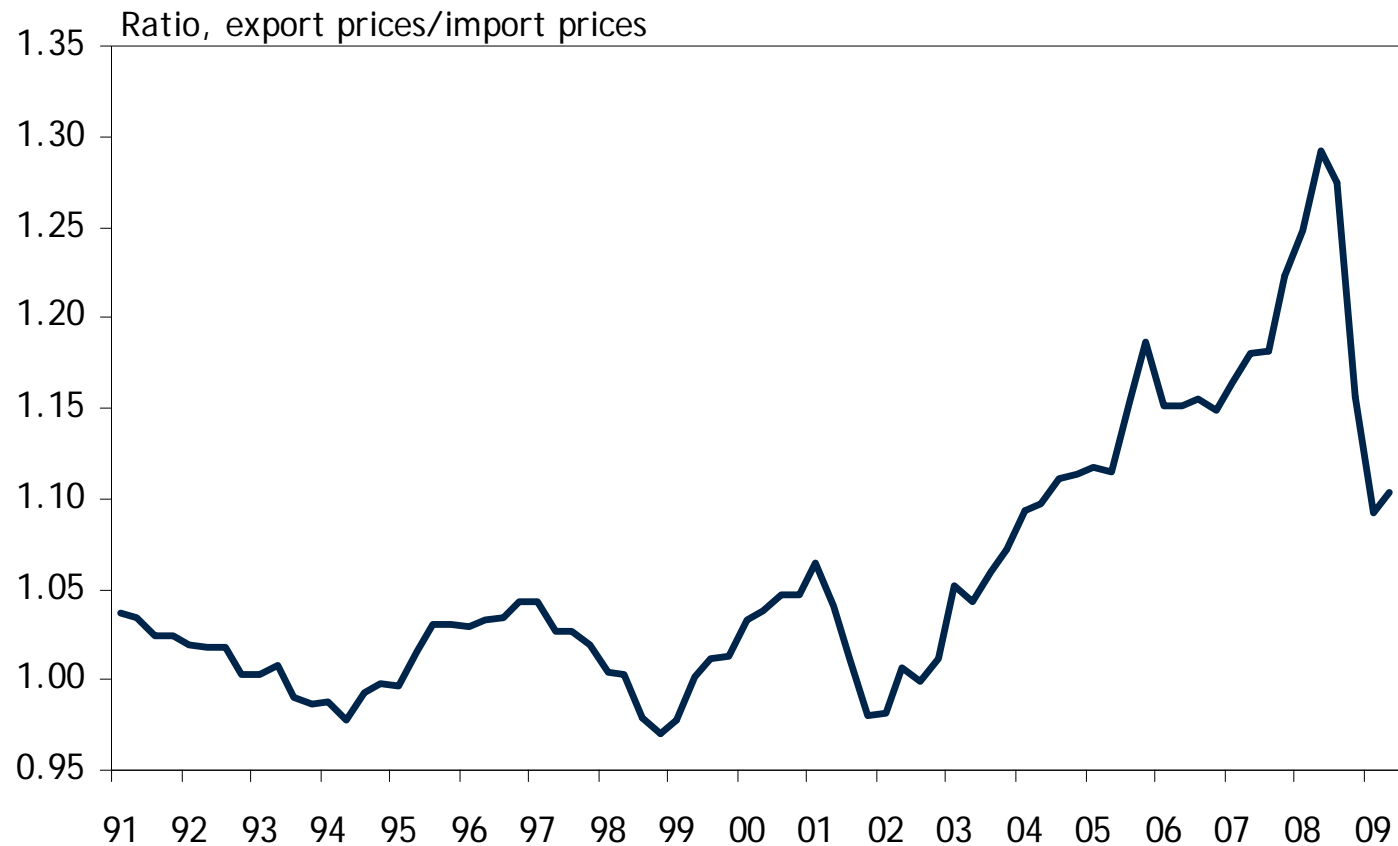


Source: Statistics Canada, US BLS, RBC Economics Research

Canada's terms of trade still favourable

Commodity prices remain historically elevated

Canadian terms of trade

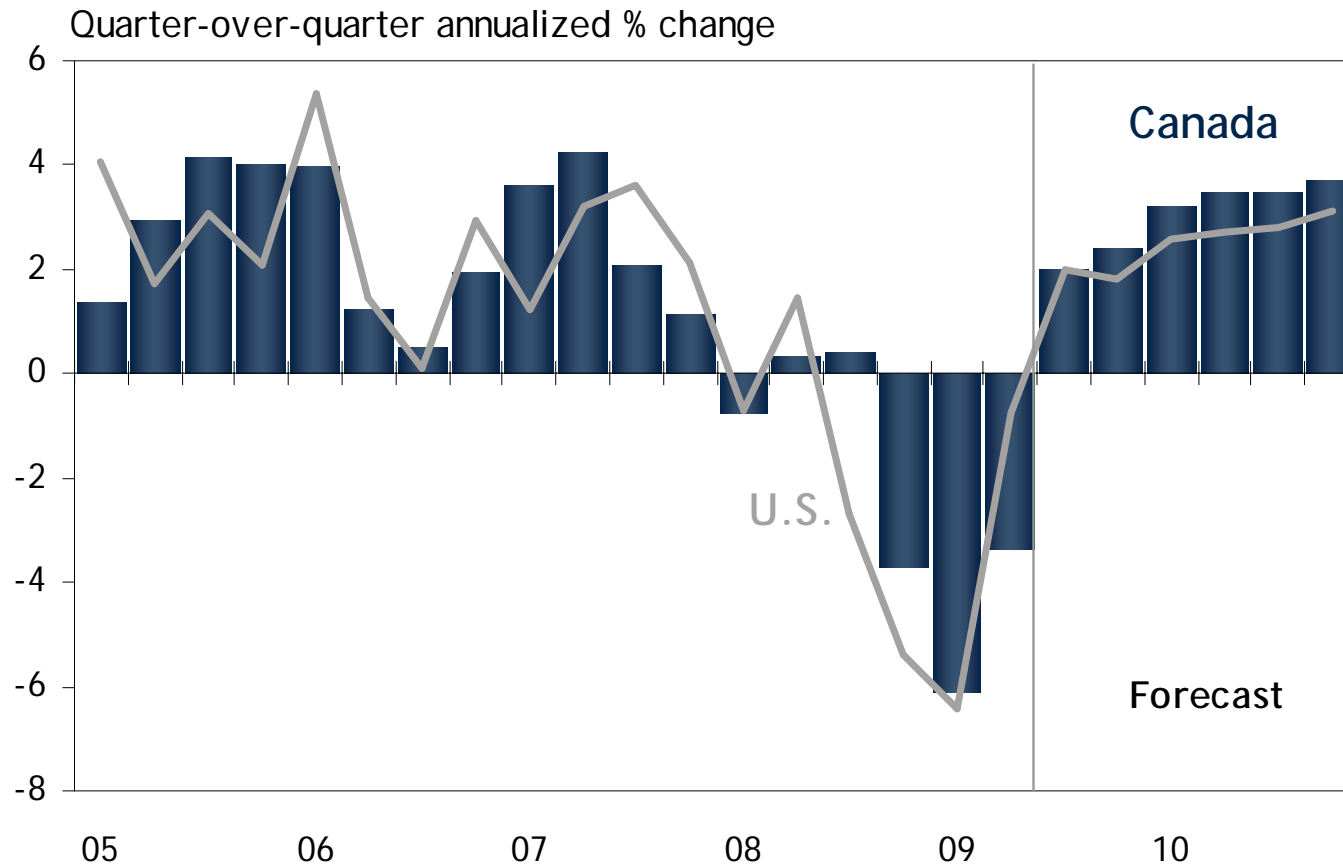


Source: Statistics Canada, RBC Economics Research

Canada to outperform the U.S.

Recovery expected to be a little stronger

Real GDP growth

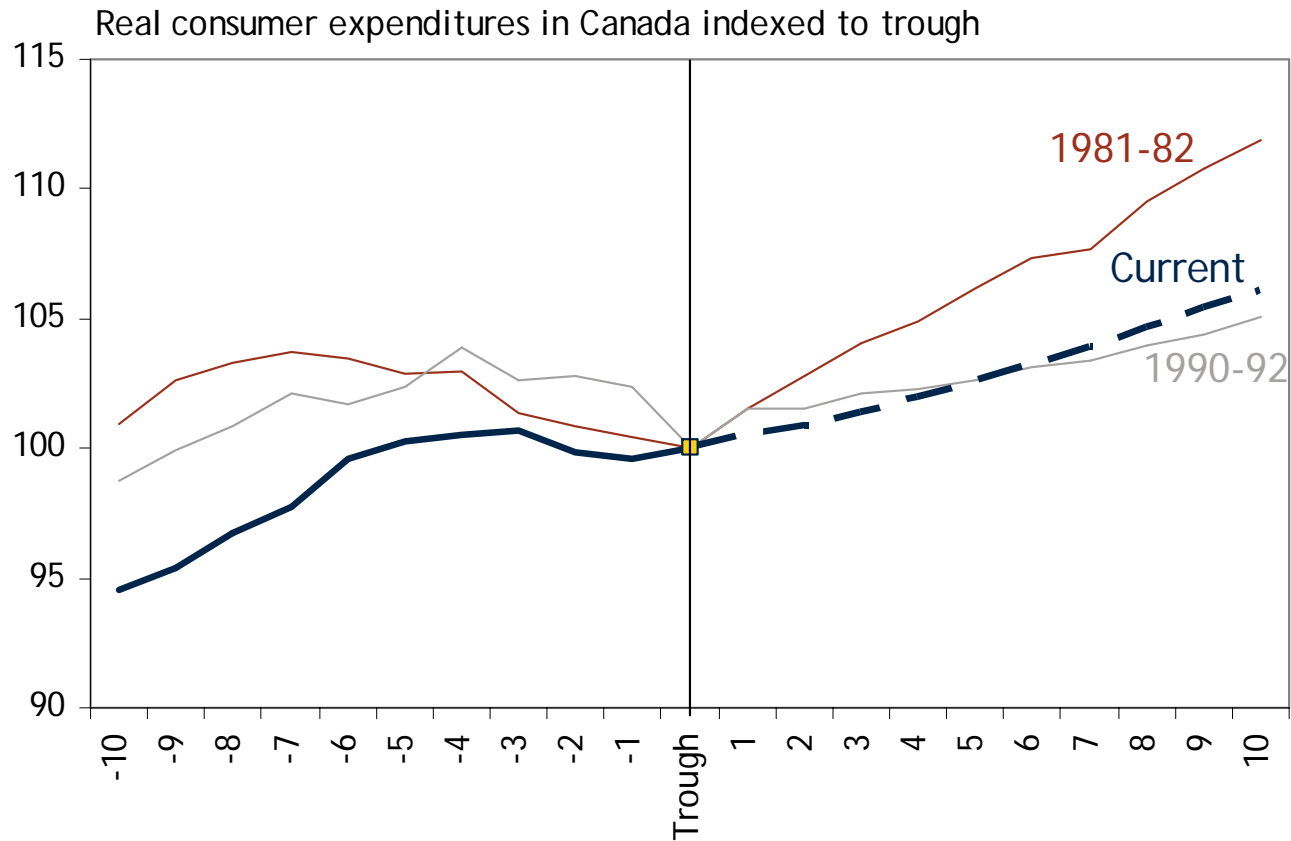


Source: Bureau of Economics Analysis, Statistics Canada, RBC Economics Research

Yet the recovery will be mild by historical standards

Short-term growth in consumer expenditures even weaker than 1990-92

Comparing consumer recoveries

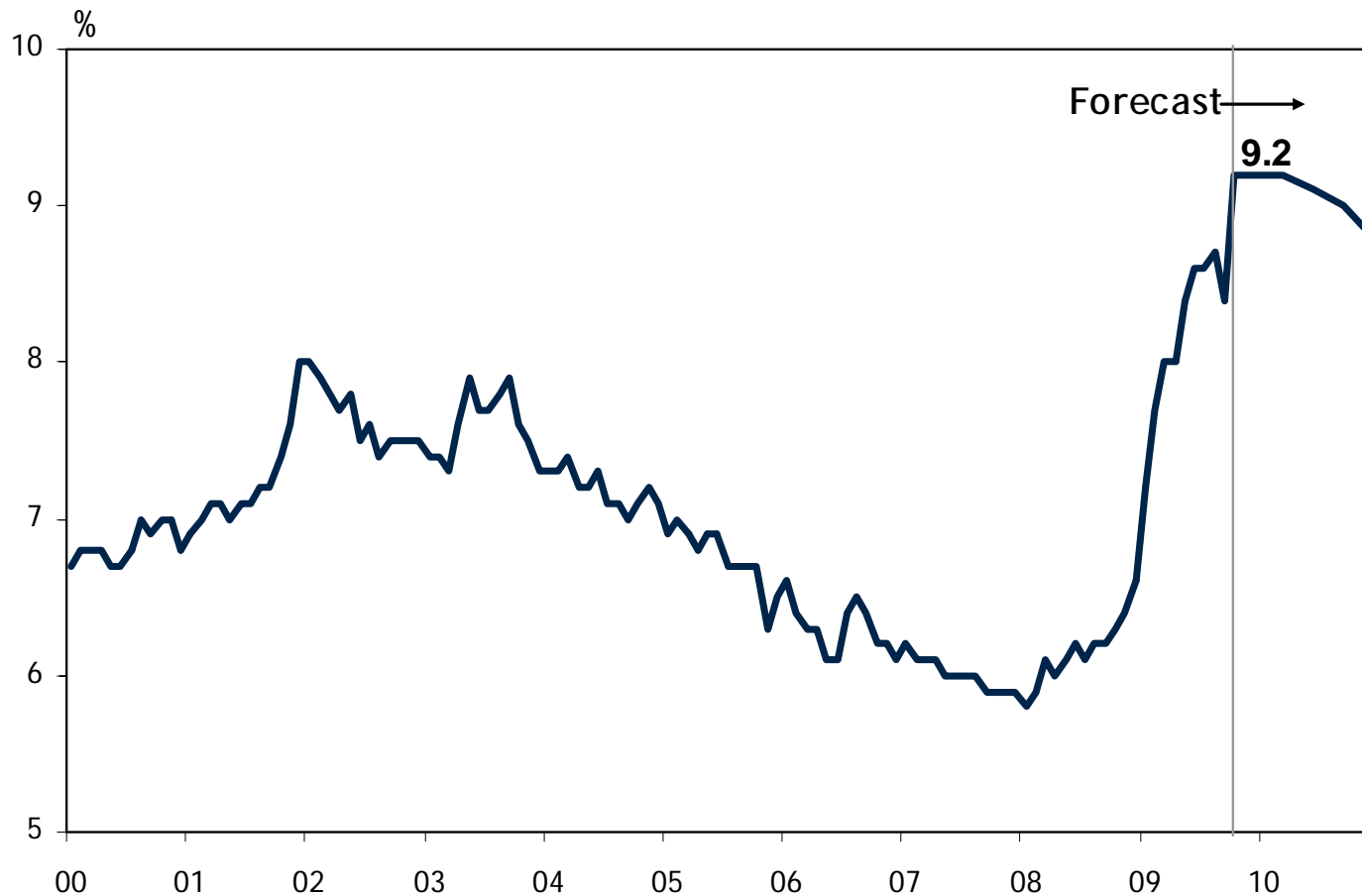


Source: Statistics Canada, RBC Economics Research

Jobless rate still trending higher; will peak early next year

Uncertainty about job prospects will linger

Unemployment rate in Canada

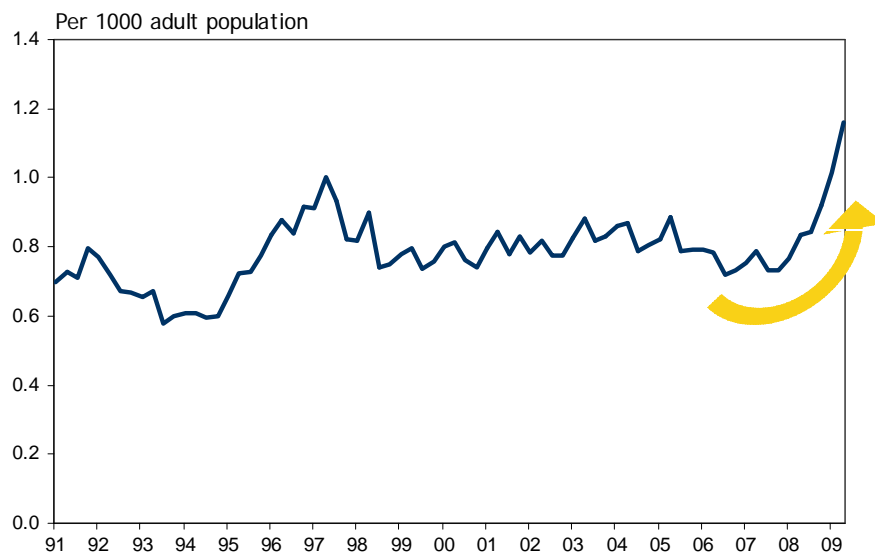


Source: Statistics Canada, RBC Economics Research

Financial situation of households still fragile

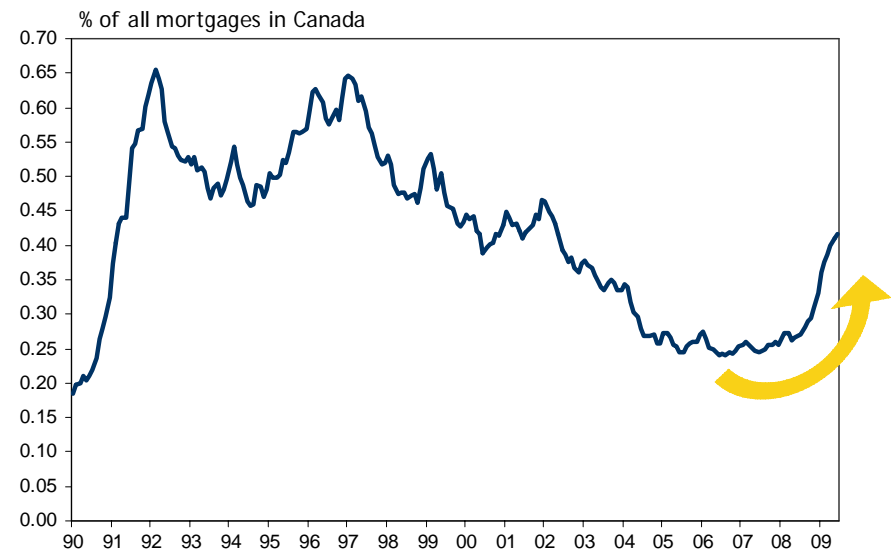
Personal bankruptcies likely to rise further

Consumer bankruptcies in Canada



Source: Statistics Canada, RBC Economics Research

Mortgages in arrears

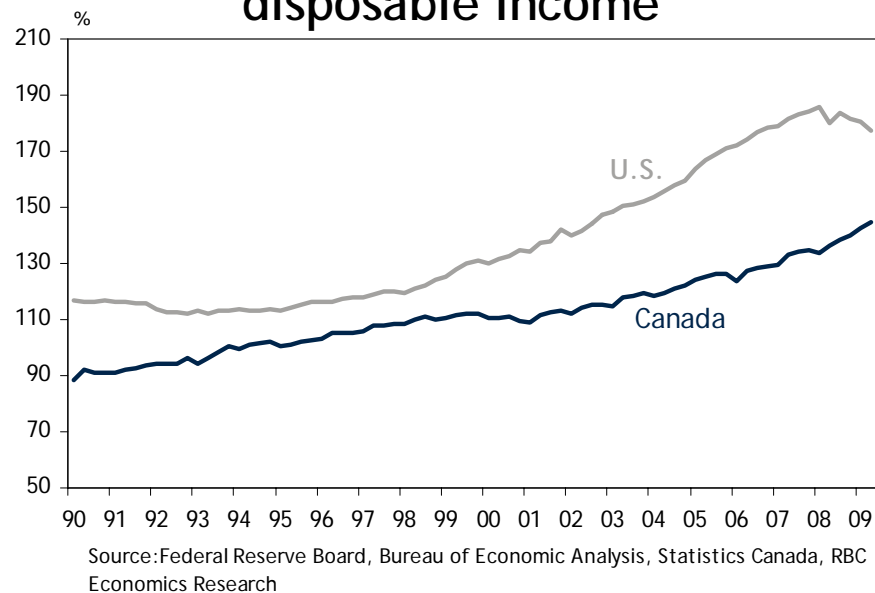


Source: Canadian Bankers Association, RBC Economics

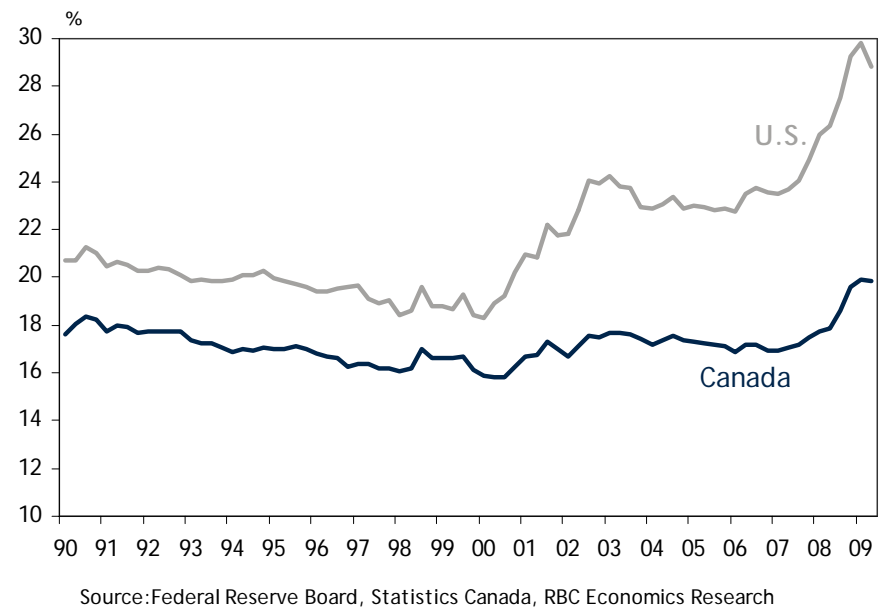
Deleveraging will remain a priority

Household have racked up a large amount of debt in recent years

Household debt to personal disposable income



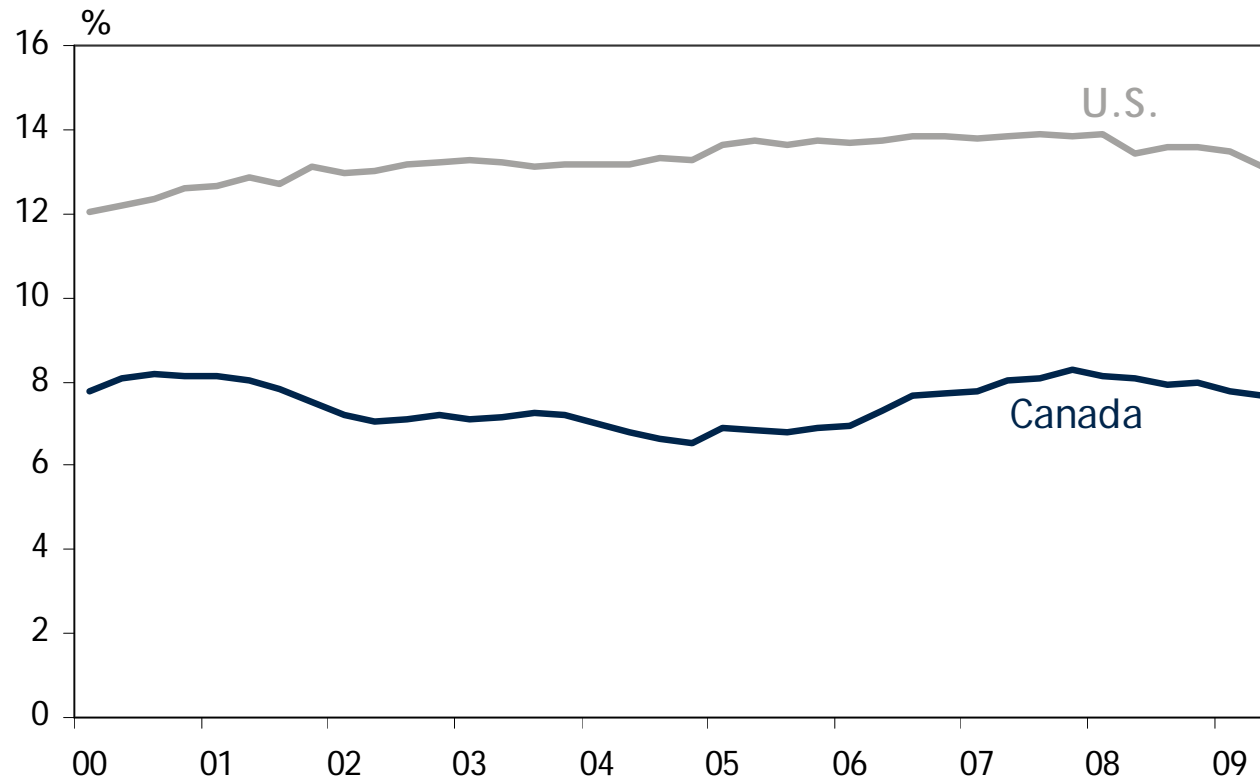
Debt to assets ratio



Fortunately, low interest rates are keeping things manageable

Debt servicing has remained under control

Household debt service ratio

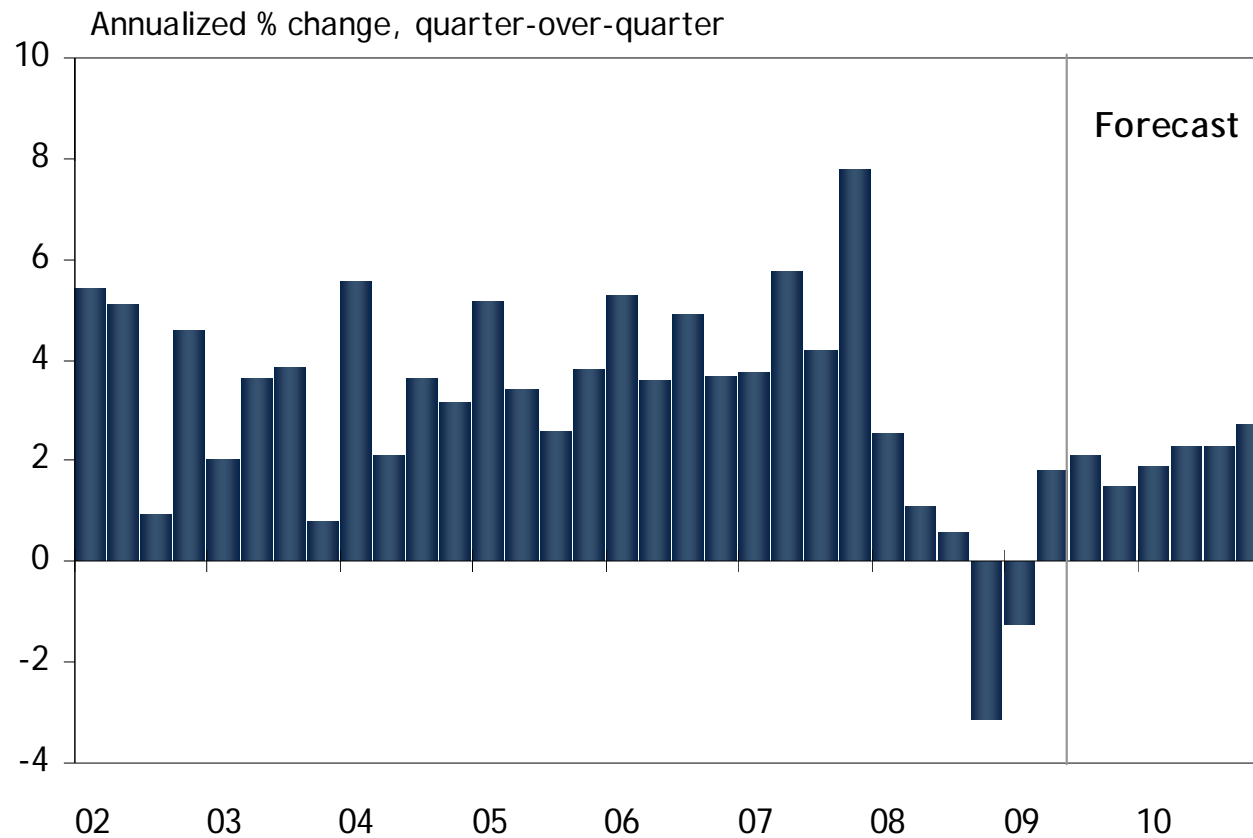


Source: Federal Reserve Board, Statistics Canada, RBC Economics Research

Consumers will boost their spending moderately

Expenditures on durables to outpace other categories

Real consumer expenditures

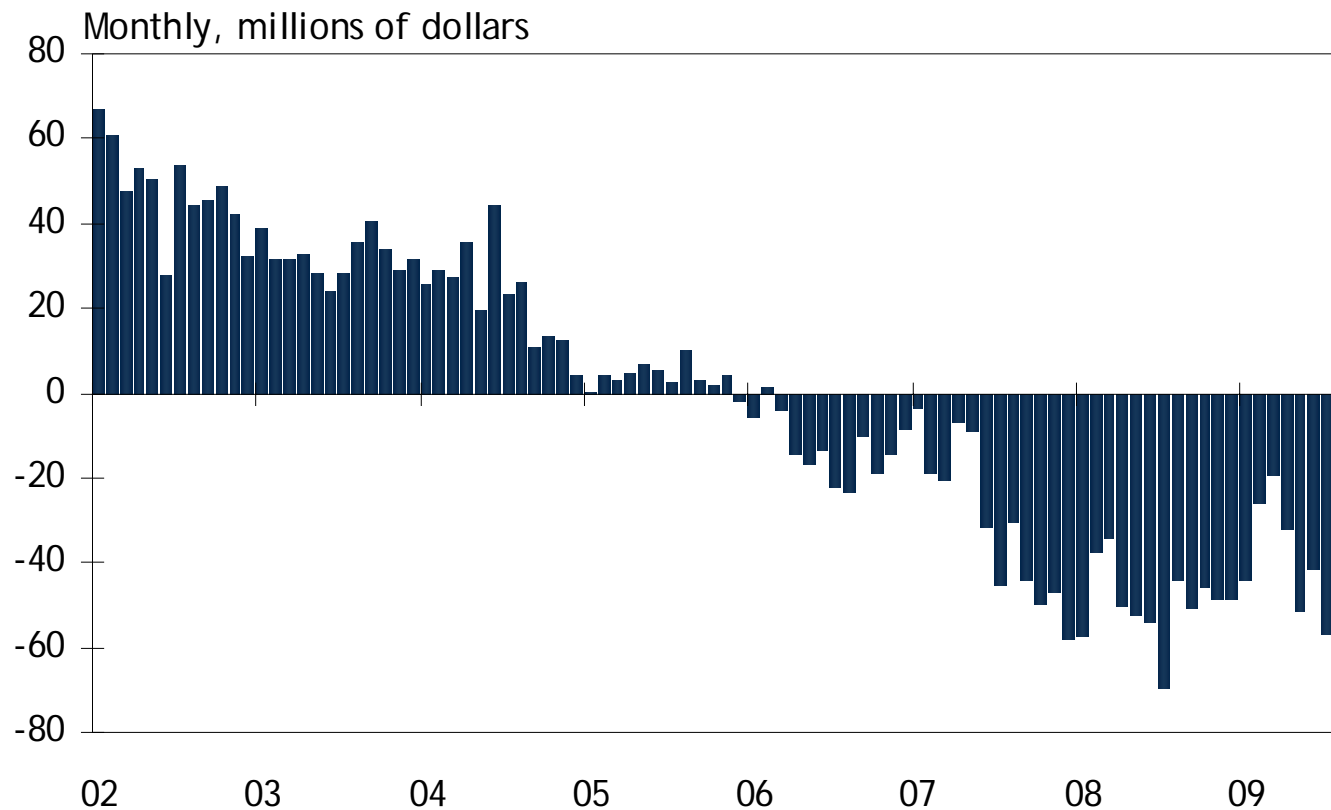


Source: Statistics Canada, RBC Economics Research

External trade sector still a drag...

Net merchandise trade has been negative since early 2006

Canadian real trade balance

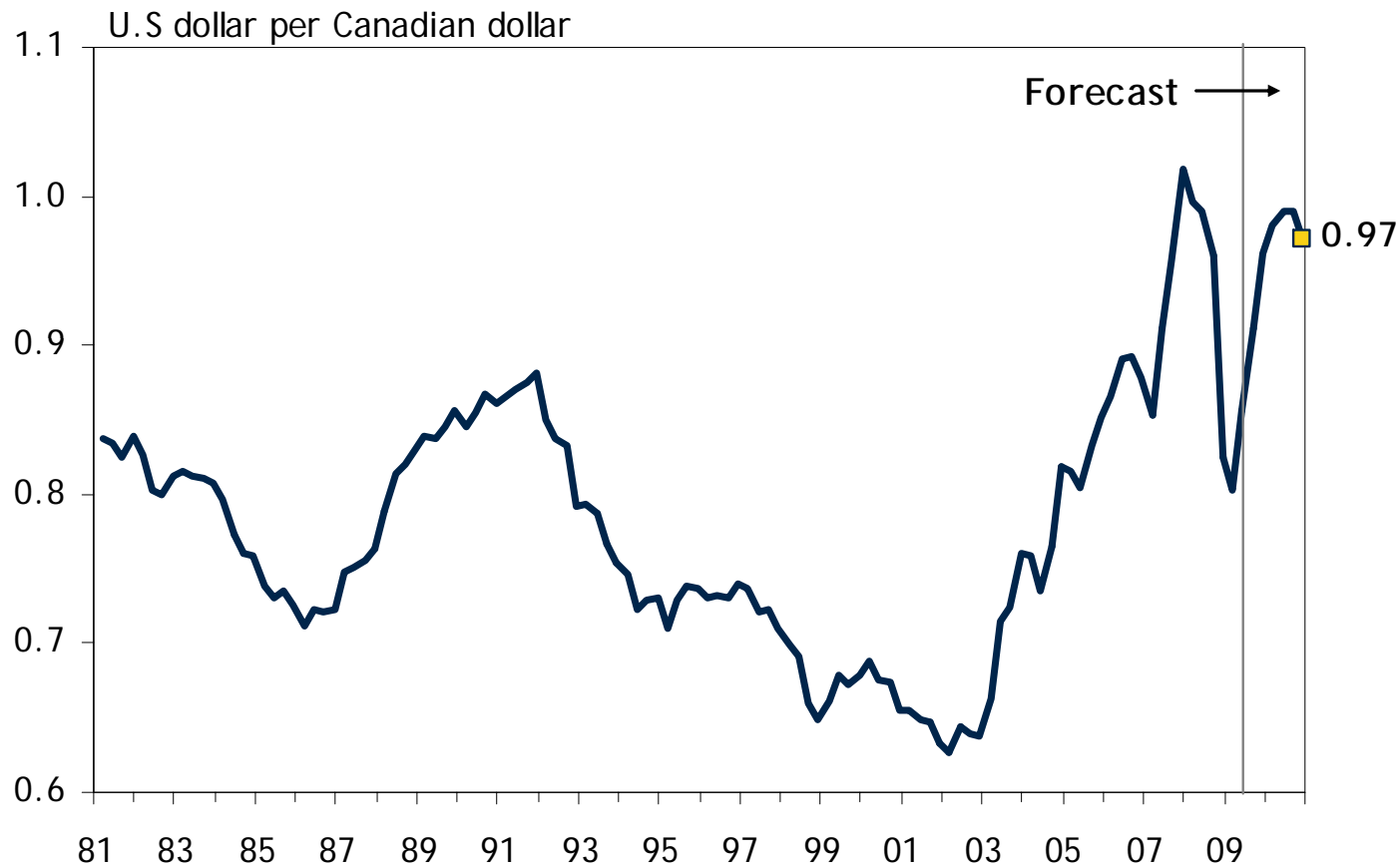


Source: Statistics Canada, RBC Economics Research

...largely due to the high Canadian dollar

The loonie might test parity in the near-term

Canadian dollar

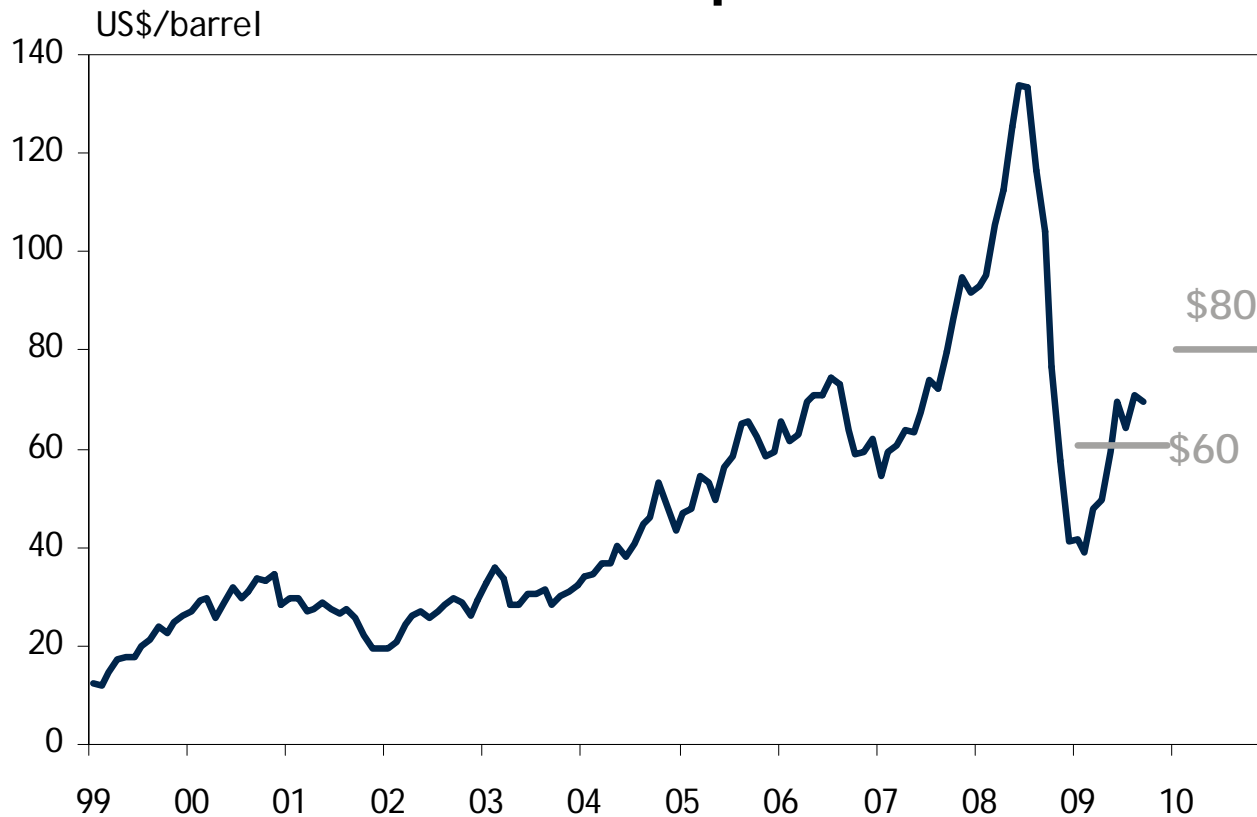


Source: Bank of Canada, RBC Economics Research

C\$ will get support from commodity prices

Oil forecast to stay at relatively high levels

Crude oil price WTI

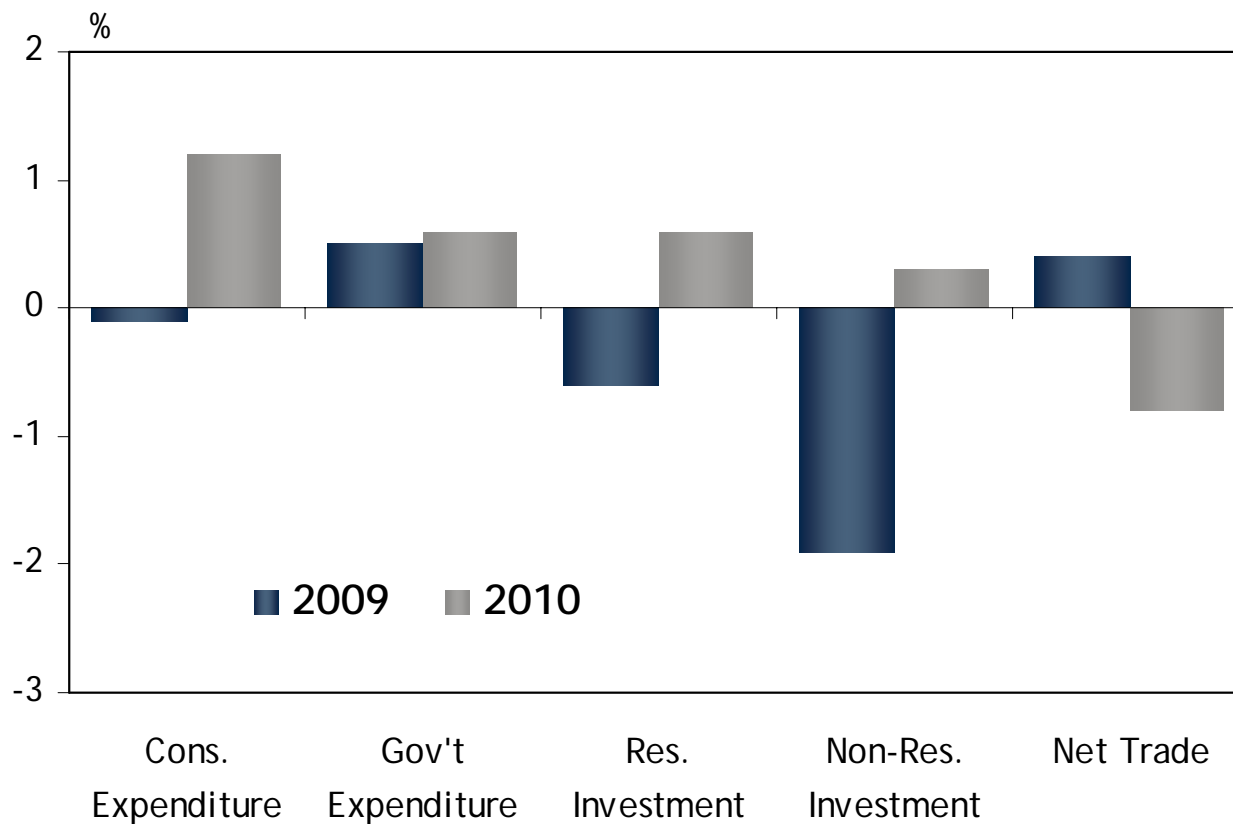


Source: Wall Street Journal, Bloomberg, RBC Economics Research

Domestic side driving growth in 2010

Consumer spending and business investment contributing again

Composition of real GDP growth

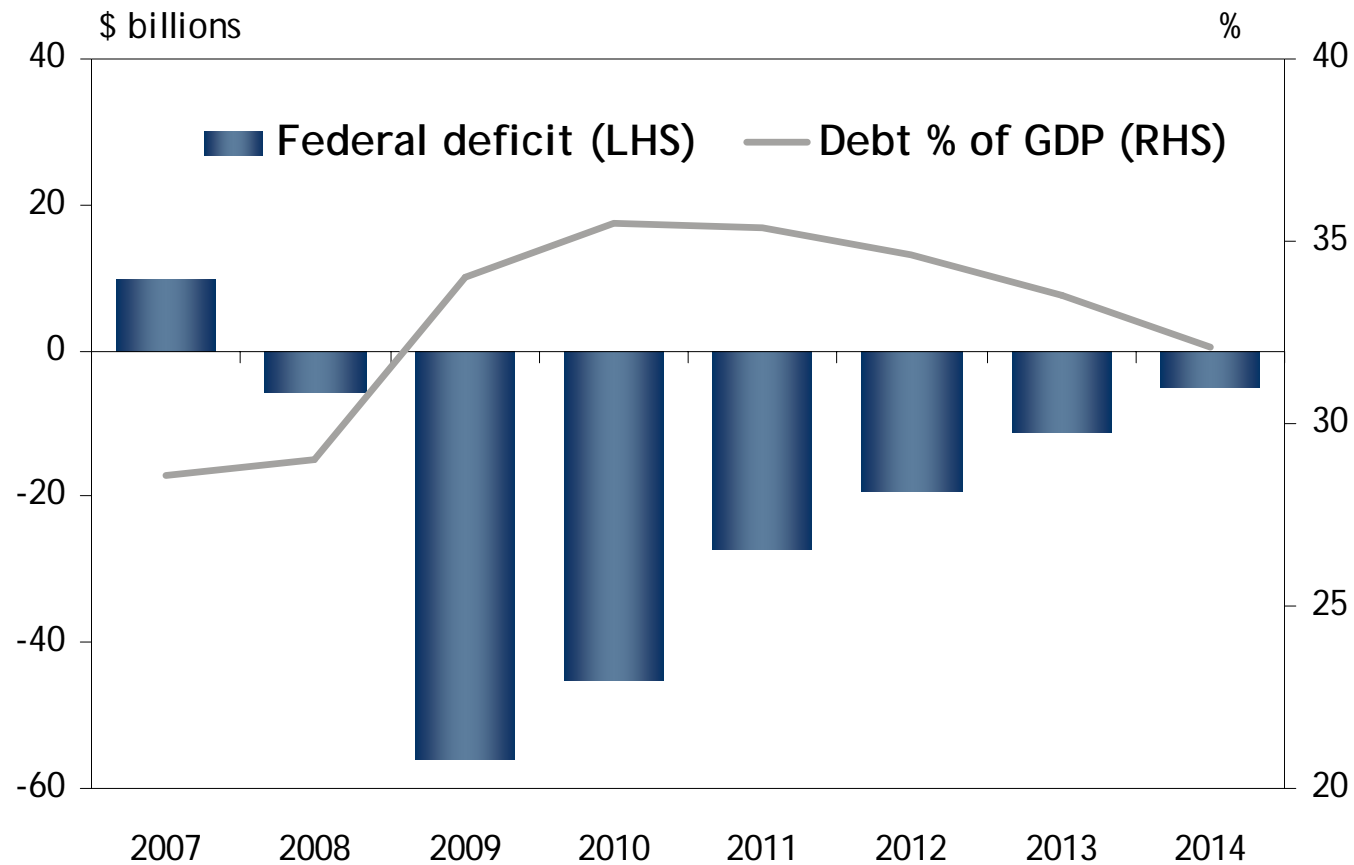


Source: RBC Economics Research

Downside of fiscal stimulus: deficits are back...

Returning to balanced budgets will be a medium-term challenge

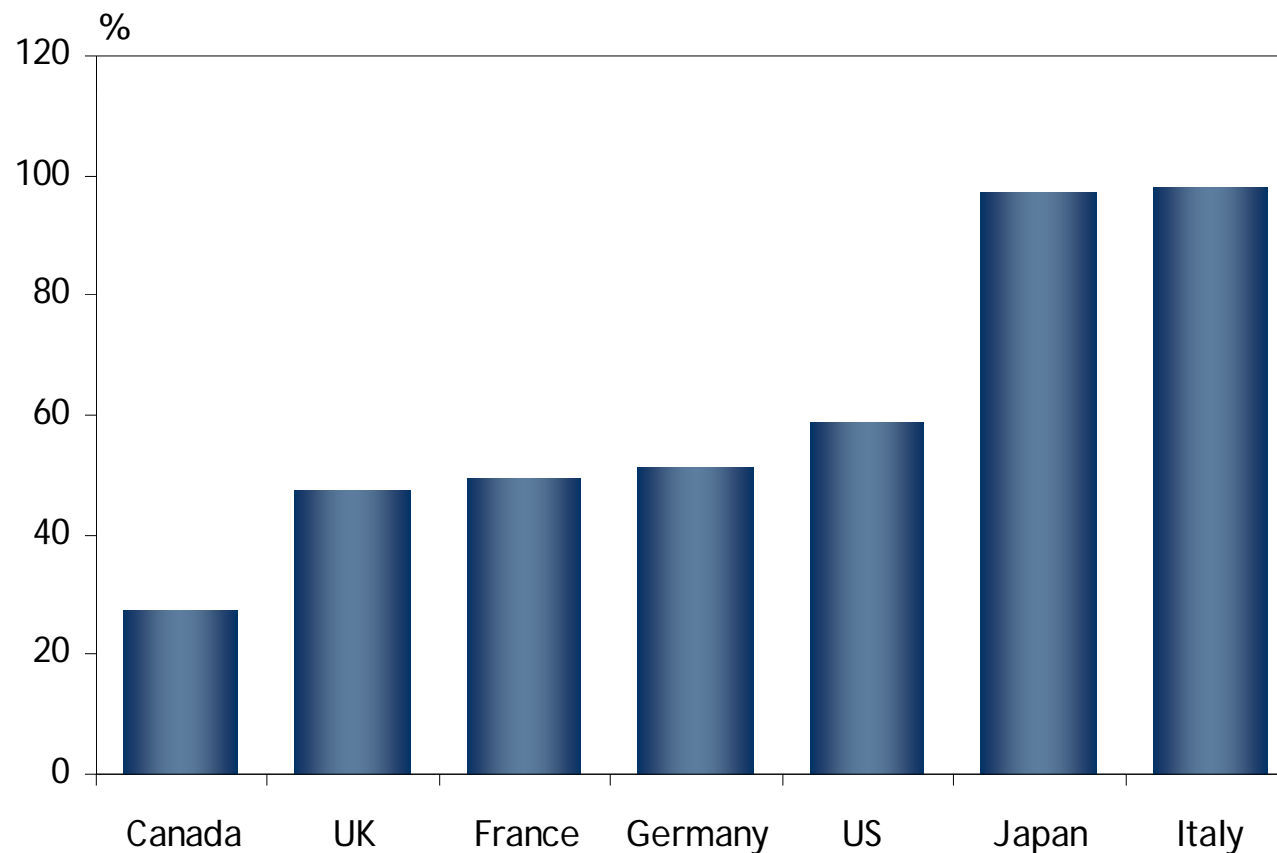
Federal fiscal position



...although Canada is well-positioned to handle them

We have the lowest debt/GDP ratio in the G7

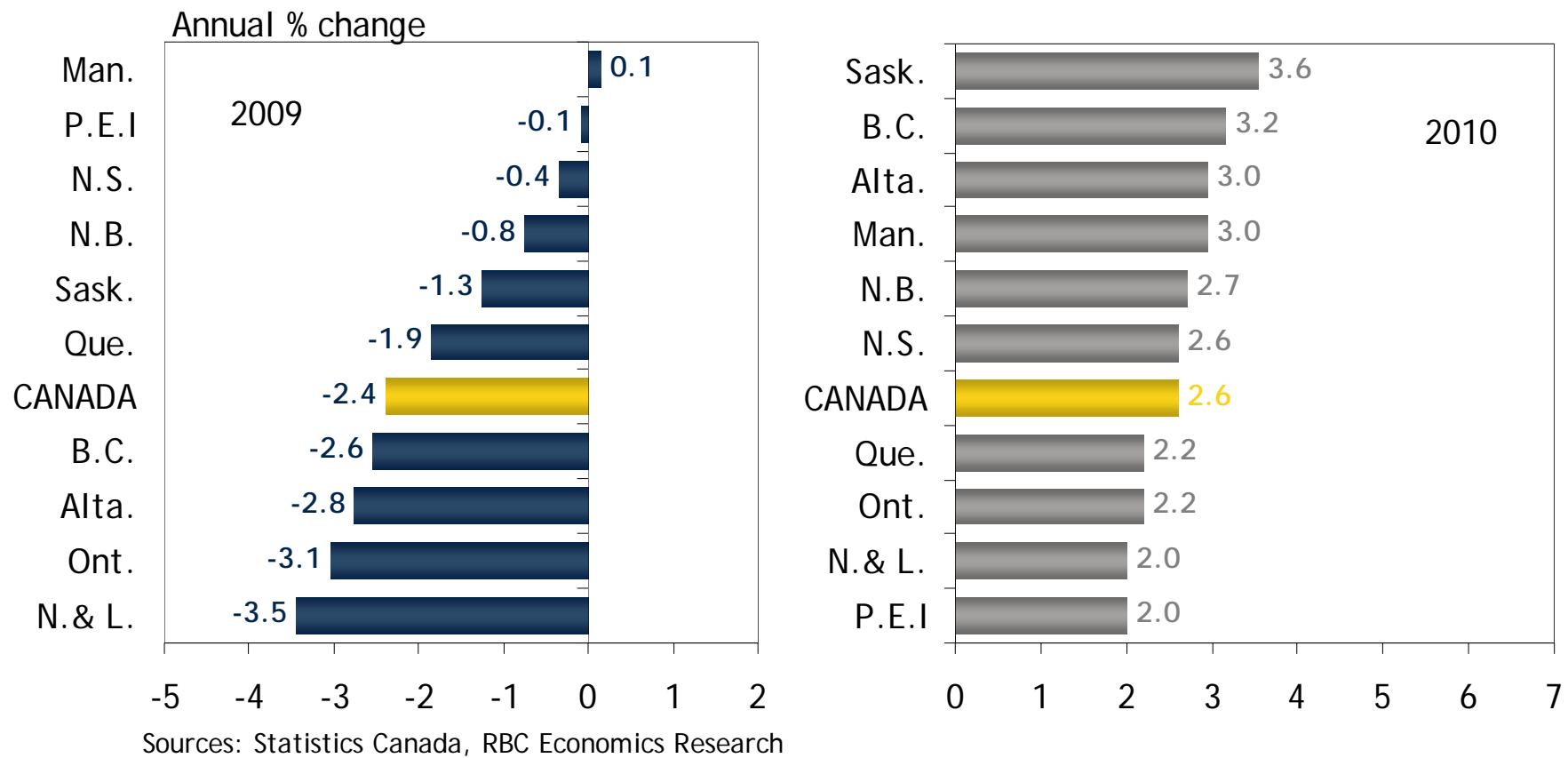
Net debt as percent of GDP



Regions: all provinces forecast to grow next year

After widespread contraction this year, rising tide will lift all boats in 2010

Provincial real GDP growth



Summary

An economic recovery is finally getting under way

- Economic stimulus – both fiscal and monetary – will power economy back to growth
- Prospects are slightly brighter in Canada than in the U.S.
- Consumer spending will pick up but moderately by historical standards
- Households still focusing on deleveraging
- Canada's external trade sector still a drag on growth
- Canada is in position to handle deficits

Risks

Still higher than usual

- Financial crisis relapse?
- “W”-style economic recovery?
- Sharper-than-expected rebound in growth raising inflation concerns?
- Loss of confidence in the U.S. dollar?

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