Economic outlook 2009-2010
On our way to recovery

Robert Hogue
Senior Economist
robert.hogue@rbc.com

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We’re finally seeing light!

Confidence is coming back

**Canadian consumer confidence**

![Graph showing Canadian consumer confidence over years 2002 to 2009](source: Conference Board of Canada, RBC Economics Research)

**Canadian business confidence**

![Graph showing Canadian business confidence over years 2002 to 2009](source: Conference Board of Canada, RBC Economics Research)
Canadian households return from hibernation

Spectacular rebound in housing market since the winter lows

Home sales

Monthly units in thousands, seasonally adjusted, Canada

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

Net % tightening

...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

Percentage of package spent in 2010

Size of stimulus package as percent of GDP

Germany ♠
Canada ♦
US ♦
Japan ♣
UK ♣
…, 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

% change, year-over-year

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

Change in 000s, 3-month sum

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

The highest it's been since the index began in 1999

Average over last 10 years is zero

Source: Bank of Canada, RBC Economics Research
Inflation is low…

Persistent slack in the economy dampens upward price pressure

Canadian inflation

% change, year-over-year

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

Annualized % change, quarter-over-quarter

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

Annualized % change, quarter-over-quarter

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009f</th>
<th>2010f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual growth rates</td>
<td>0.4</td>
<td>-2.4</td>
<td>2.6</td>
</tr>
</tbody>
</table>

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

Peak = 100

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**

% change, year-over-year

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

**Housing starts**

Canada: thousand units

U.S.: million units

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

[Line graph showing the ratio of export prices to import prices from 1991 to 2009.
Source: Statistics Canada, RBC Economics Research]
Canada to outperform the U.S.

Recovery expected to be a little stronger

Real GDP growth

Quarter-over-quarter annualized % change

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

Real consumer expenditures in Canada indexed to trough

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

Forecast 9.2

Source: Statistics Canada, RBC Economics Research
Financial situation of households still fragile

Personal bankruptcies likely to rise further

**Consumer bankruptcies in Canada**

Per 1000 adult population

Source: Statistics Canada, RBC Economics Research

**Mortgages in arrears**

% of all mortgages in Canada

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**

Source: Federal Reserve Board, Bureau of Economic Analysis, Statistics Canada, RBC Economics Research
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

[Bar chart showing Federal deficit (LHS) and Debt % of GDP (RHS) for years 2007 to 2014]

- Federal deficit (LHS)
- Debt % of GDP (RHS)
...although Canada is well-positioned to handle them

We have the lowest debt/GDP ratio in the G7
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

<table>
<thead>
<tr>
<th>Province</th>
<th>2009</th>
<th>Annual % change</th>
<th>2010</th>
</tr>
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<tbody>
<tr>
<td>Man.</td>
<td>0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P.E.I</td>
<td>-0.1</td>
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<tr>
<td>N.S.</td>
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<tr>
<td>N.B.</td>
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<tr>
<td>Sask.</td>
<td>-1.3</td>
<td></td>
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<tr>
<td>Que.</td>
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<tr>
<td>CANADA</td>
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<tr>
<td>B.C.</td>
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<td></td>
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<tr>
<td>Alta.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Ont.</td>
<td>-3.1</td>
<td></td>
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<tr>
<td>N.&amp; L.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Sask.</td>
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<td>B.C.</td>
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Sources: Statistics Canada, RBC Economics Research
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?