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**North American Economic Outlook:  
"Will the Recovery Be Sustained?"**

Presentation to the Canadian Association of Movers –  
2011 Annual Conference

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**U.S. Economic Outlook:**

**The Gradual Pace of Recovery Leaves the  
U.S. Economy Vulnerable to Possible  
Negative Shocks**

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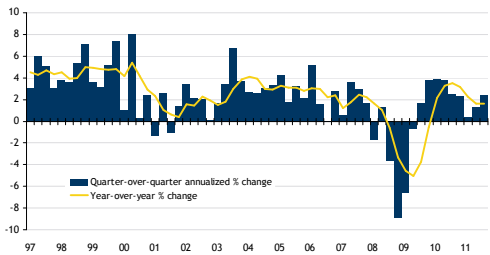
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**The U.S. has pulled out of recession mid-2009 sustaining eight quarters of growth, though the pace of activity has slowed dramatically over the first half of 2011**

**U.S real GDP growth**



Source: Bureau of Economic Analysis, RBC Economics Research

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This slowing in growth has stalled the improvement in the unemployment rate and left the economy vulnerable to a negative shock

**Unemployment rate: U.S.**



Source: Bureau of Labor Statistics, RBC Economics Research



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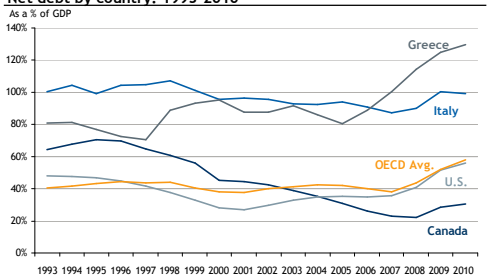
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Potential negative shocks include a worsening in the European sovereign debt crisis and potential defaults...

**Net debt by country: 1993-2010**



Source: OECD, RBC Economics Research



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...along with sustained weakness in equity markets

**S&P 500 composite index**



Source: Bloomberg, RBC Economics Research



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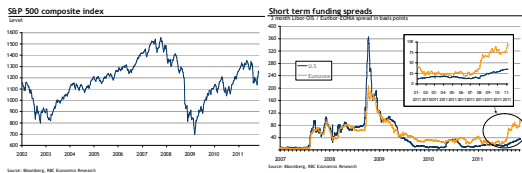
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However the financial market deterioration to date is not as yet of the same magnitude experienced prior to the last recession

**Weekly observation**




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As well, the weak growth and stalling in the downward trend in unemployment growth over the first half of this year was partly due to a number of transitory factors including:

- A spike in gasoline prices that lowered disposable income outside of energy purchases
- Supply-chain disruptions that emanated from the earthquake and tsunami in Japan that weighed on motor vehicle production
- Adverse weather particularly in Q1




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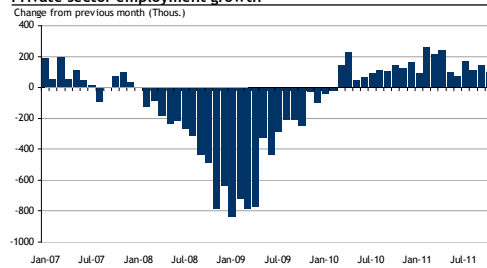
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As these temporary impediments ease, it will also be necessary to see employment growth continuing to strengthen after some recent volatility

**Private sector employment growth\***



\*Excludes the impact of the Verizon strike in August 2011  
Source: Bureau of Labor Statistics, RBC Economics Research




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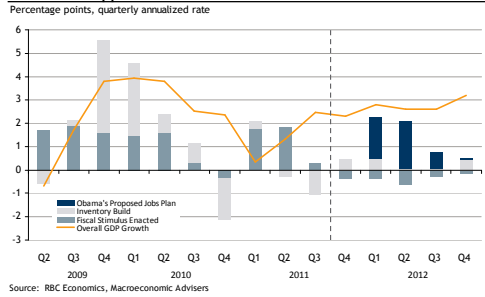
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Support from private sector spending will be increasingly important as the lift from fiscal stimulus and inventory accumulation will start to subside though the proposed Obama jobs plan would delay such until 2013

**U.S. Fiscal Support**




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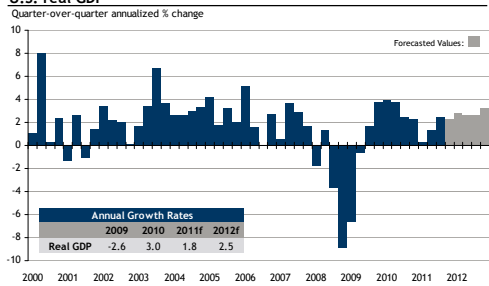
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Assuming a recovery in employment and additional policy stimulus, growth is expected to recover over the second half of this year and be sustained through 2012

**U.S. real GDP**




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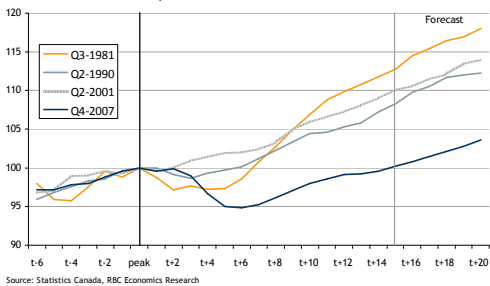
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However, this represents a very 'sub-par' recovery with activity restrained by the fallout from the last recession in the form of high household and government debt levels and impaired financial markets

**US Real GDP: Indexed to Recession GDP Peaks**




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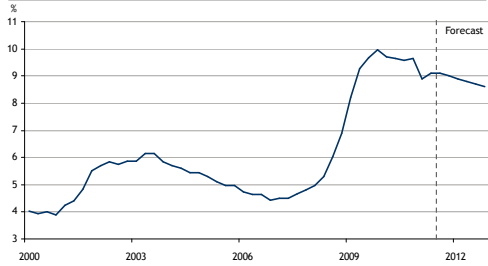
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The projected pace of GDP growth will put only modest downward pressure on the unemployment rate

### Unemployment rate forecast: U.S.



Source: Bureau of Labor Statistics, RBC Economics Research

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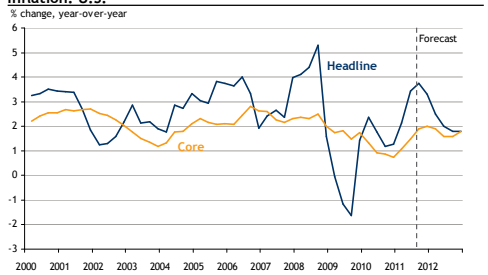
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Slack in labour markets will keep inflation quiescent despite commodity prices remaining historically high

### Inflation: U.S.



Source: Bureau of Labor Statistics, RBC Economics Research

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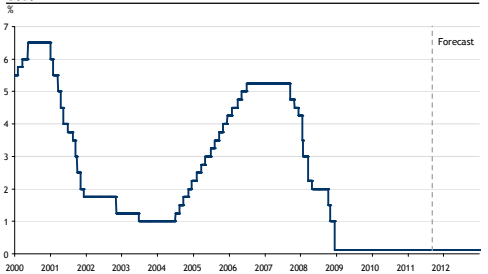
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High unemployment and low inflation will result in the Fed keeping policy accommodative with hikes to Fed funds delayed until 2013

### U.S. Fed funds rate



Source: Federal Reserve Board, RBC Economics Research

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The slowing in the U.S. economy is expected to be a key factor in moderating global growth this year and next

Global Output Summary	2007	2008	2009	2010	2011	2012
Advanced Economies	2.8	0.1	-3.7	3.1	1.7	2.2
U.S.	1.9	-0.3	-3.5	3.0	1.8	2.5
Canada	2.2	0.7	-2.8	3.2	2.3	2.5
UK	3.5	1.1	-4.4	1.8	0.9	1.0
Eurozone	3.0	0.1	-4.2	1.8	1.7	0.9
Germany	3.4	0.8	-5.1	3.6	2.7	1.3
France	2.2	-0.2	-2.6	1.4	1.7	1.4
Italy	1.5	-1.3	-6.2	1.3	0.6	0.3
Spain	3.6	0.9	-3.7	-0.1	0.8	1.1
Other Advanced Economies*	3.8	0.4	-3.4	5.0	1.9	3.3
Emerging and Developing Economies	8.9	6.0	2.8	7.3	6.3	5.5
Brazil	6.1	5.2	-0.5	7.5	3.6	3.8
Russia	8.5	5.2	-7.8	4.0	6.0	4.0
India	9.5	7.4	7.2	8.9	7.8	8.3
China	14.2	10.0	9.2	10.3	9.3	8.9
Mexico	3.3	1.2	-6.1	5.4	3.8	3.3
Other Developing Economies*	6.8	4.7	0.6	5.3	4.7	4.4
World GDP Growth	5.4	2.8	-0.7	5.1	4.0	4.1

\*Based on the most recent IMF World Economic Outlook Forecast  
Sources: RBC Economics Research, RBC Emerging Markets Research, IMF World Economic Outlook

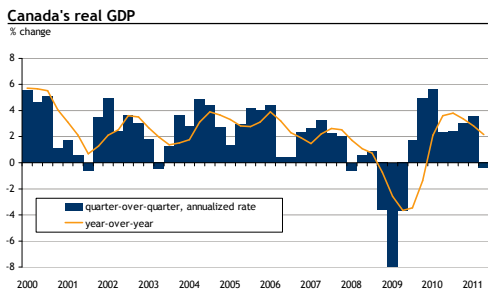


**Canadian Economic Outlook:**

Strong Demand for Natural Resources a Benefit For Canada Though Growth is Still Largely Dependant on Sustained U.S. Recovery



The recovery in Canada has generally been stronger than in the U.S. though growth has been hit by some transitory factors that combined to produce a small decline in Q2 Canadian GDP

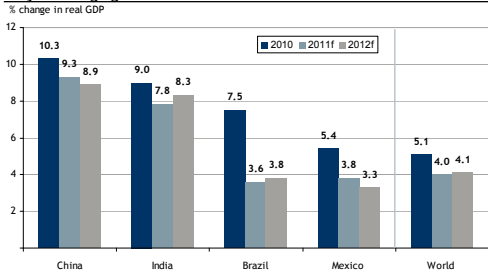


Source: Statistics Canada, RBC Economics Research



The Canadian economy has benefited from strong demand from emerging markets such as China for various natural resources...

**Major emerging economies**



Source: International Monetary Fund, RBC Emerging Markets Research, RBC Economics Research




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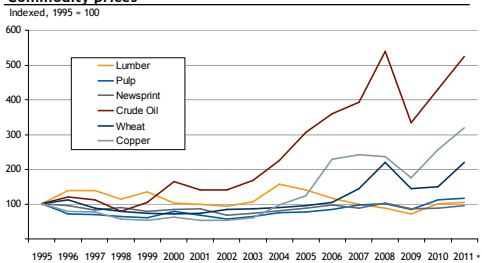
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...which is putting upward pressure on oil, base metal and grain prices though forestry prices have benefited less.

**Commodity prices**



Source: Bloomberg, RBC Capital Markets, RBC Economics Research




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We are assuming that commodity prices such as for oil, will remain historically high

**West Texas Intermediate Oil Price**



Source: Wall Street Journal, RBC Economics Research




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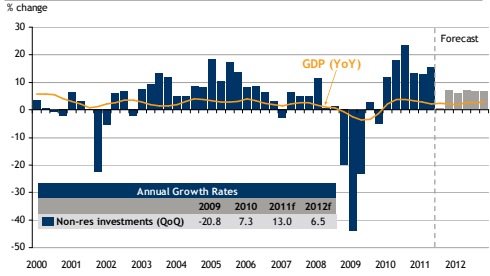
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High commodity prices and low interest rates are expected to result in business investment being a mainstay of Canadian growth this year and next

**Non-residential investment: Canada**



Source: Statistics Canada, RBC Economics Research




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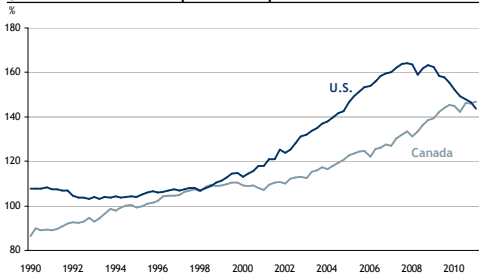
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High levels of Canadian household debt as a share of income...

**Credit market debt\*-to-personal disposable income**



\*Credit market debt includes mortgages and consumer loans only  
Source: Statistics Canada, Federal Reserve Board, Bureau of Economic Analysis, Office for National Statistics, RBC Economics




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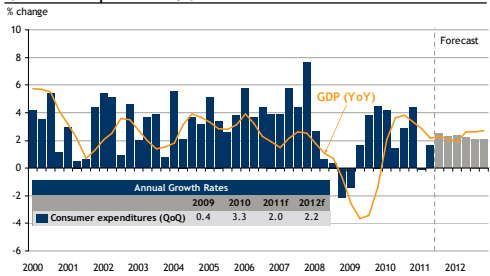
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...will limit, though not prevent, continued growth in consumer spending with low interest rates providing an offset

**Consumer expenditures: Canada**



Source: Statistics Canada, RBC Economics Research




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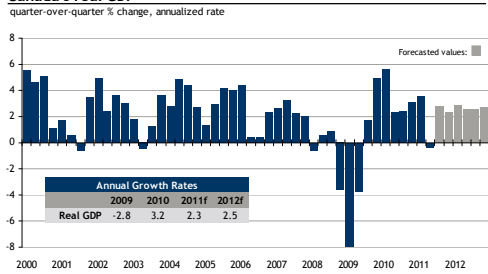
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The expected rebound in U.S. growth and accommodative Bank of Canada policy is expected to help sustain growth in Canada

Canada's real GDP



Source: Statistics Canada, RBC Economics Research

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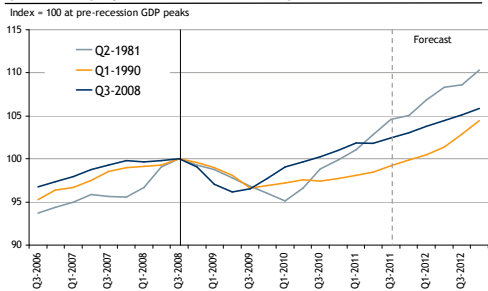
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The Canadian economy is seeing a more typical rebound from last recession benefiting from strong demand for natural resources globally

Canada Real GDP: Indexed to Pre-recession GDP Peaks



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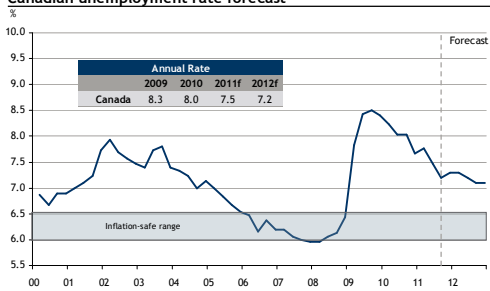
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This has resulted in a more sustained improvement in labour markets

Canadian unemployment rate forecast



Source: Statistics Canada, RBC Economics Research

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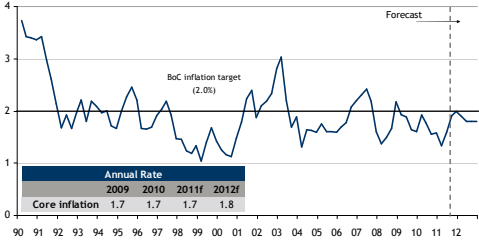
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However there remains sufficient slack in the economy to keep core inflation below target near term despite high commodity prices

**Core inflation: Canada**

% change, year-over-year



Source: Statistics Canada, RBC Economics Research




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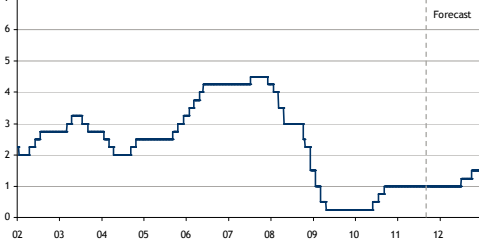
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To sustain growth, the Bank of Canada is expected to remain on the sidelines through mid-2012

**Bank of Canada overnight rate**

%



Source: Bank of Canada, RBC Economics Research




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Bond yields to rise as financial markets anticipate eventual central bank tightening

**10-year bond yield: Canada**

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Source: Bank of Canada, RBC Economics Research




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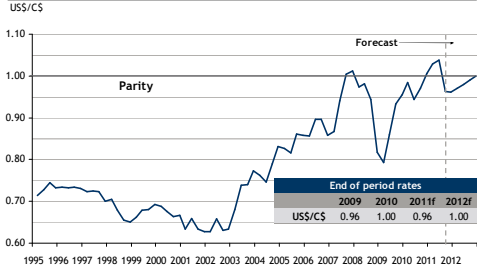
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**The Canadian dollar to remain strong reflecting historically high commodity prices**

**Canadian dollar forecast**



Source: Bank of Canada, RBC Economics Research




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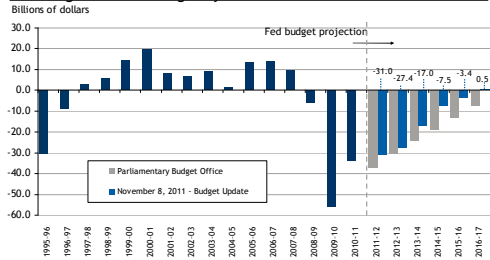
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**Fiscal policy will need to tighten though more over the medium rather than the near term**

**Federal government budgetary balance\***



\*Does not include projected savings from the Strategic and Operating Review  
Source: Department of Finance, RBC Economics Research




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**Regional Outlook:**

**The Recovery in Ontario is Very Much Dependant on Sustained U.S. Growth**




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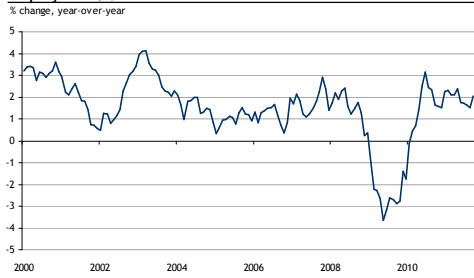
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**Employment growth in Ontario is bouncing back after sizeable declines through the recession**

**Employment: Ontario**



Source: Statistics Canada, RBC Economics Research




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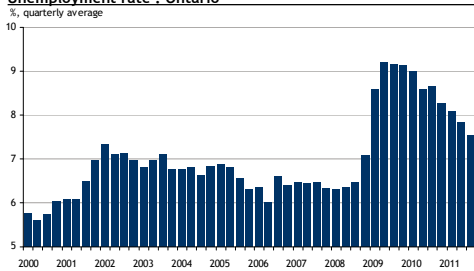
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**However, the recent job gains have only resulted in a gradual retracement of the earlier deterioration in the unemployment rate**

**Unemployment rate : Ontario**



Source: Statistics Canada, RBC Economic Research




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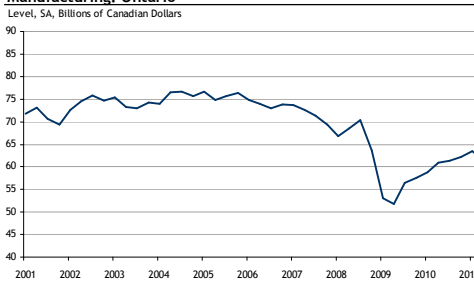
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**The recovery in jobs has been helped by a return to growth in manufacturing after a deep slump in the past recession**

**Manufacturing: Ontario**



Source: Statistics Canada, RBC Economics Research




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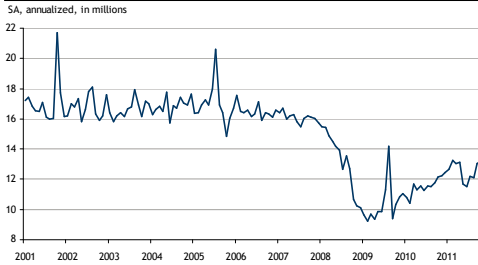
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The weakness in manufacturing resulted from Ontario feeling the full brunt of slumping U.S. demand in 2009, particularly for autos though this weakness is starting to gradually reverse

**Auto sales: U.S.**



Source: Bureau of Economic Analysis, RBC Economics Research




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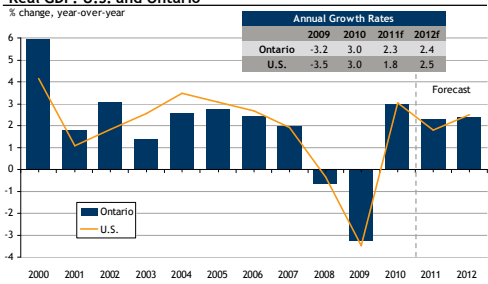
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Ontario's growth will be primarily driven by the strength in the U.S. economy

**Real GDP: U.S. and Ontario**



Source: Statistics Canada, RBC Economics Research




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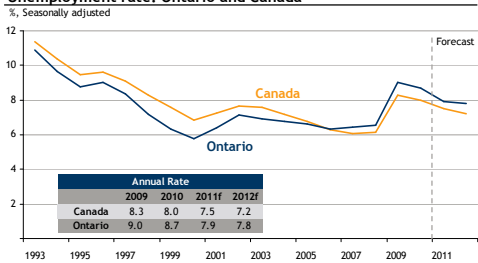
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The subdued recovery will allow for only a modest improvement in the unemployment rate in Ontario

**Unemployment rate: Ontario and Canada**



Source: Statistics Canada, RBC Economics Research




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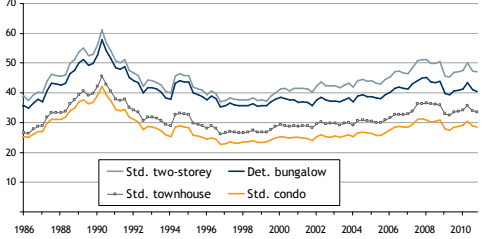
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**RBC's Housing Affordability Measure for Ontario indicates an absence of imbalances in the housing market**

**Housing Affordability Measure: Ontario**

% of household income taken up by ownership costs



Source: Statistics Canada, Royal LePage, RBC Economics Research

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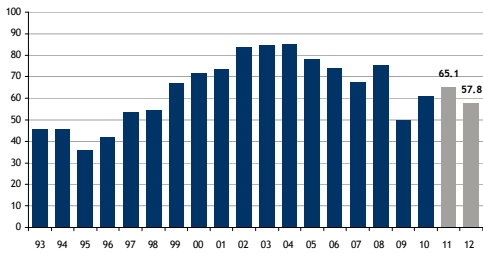
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**However, the modest rebound in the overall economy will limit the recovery in new home construction in Ontario...**

**Housing starts: Ontario**

SAAR, Thousands of units



Source: Canada Mortgage and Housing Corporation, RBC Economics Research

Forecasted Values: ■

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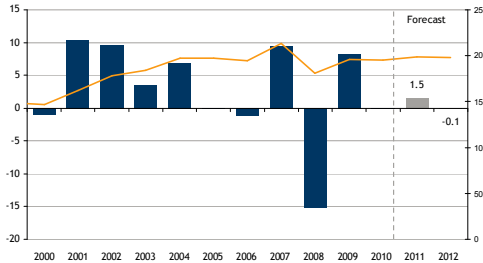
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**...and weigh on housing resales this year and next**

**Housing resales: Ontario**

Year-over-year % change



Source: CREA, RBC Economics Research

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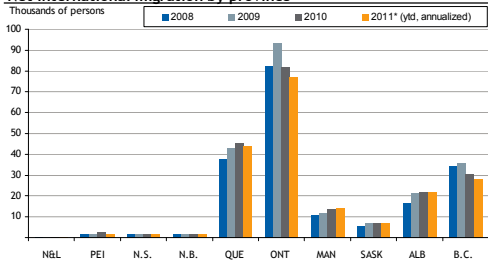
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**All three Prairie Provinces are seeing a rising trend in net international in-migration with Manitoba's gains particularly impressive**

**Net international migration by province**



\*Data through Q2-2011, annualized  
Source: Statistics Canada, RBC Economics Research




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