

## The economic outlook for Canada Moving forward in an uncertain world

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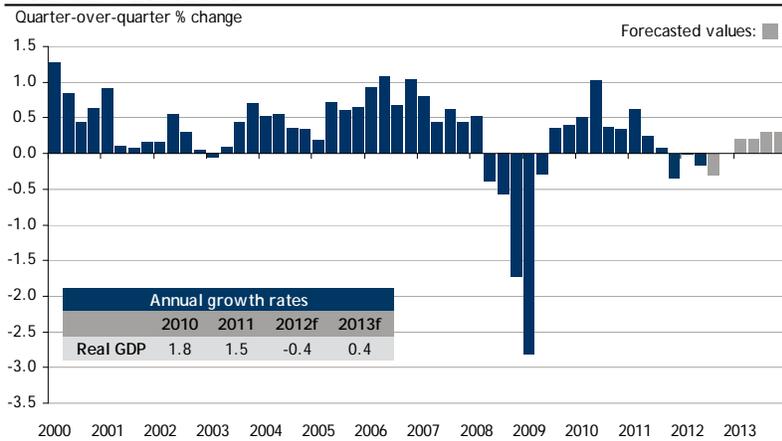
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Mississauga  
November 6, 2012



## Things are tough these days: Europe is in recession,...

Fiscal austerity takes a toll; Spain on the front burner

### Real GDP: Eurozone



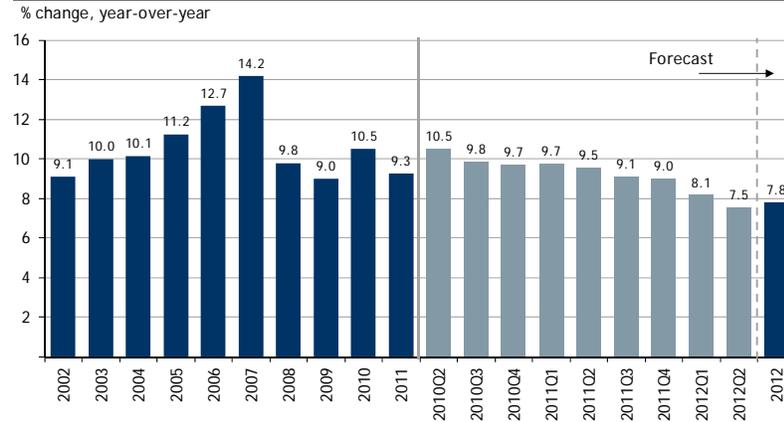
Source: Eurostat, RBC Economics Research



## ...China's growth is slowing...

Weaker export markets; domestic challenges

### Real GDP: China



Source: CNBS, Haver Analytics, RBC Emerging Markets Research, RBC Economics Research

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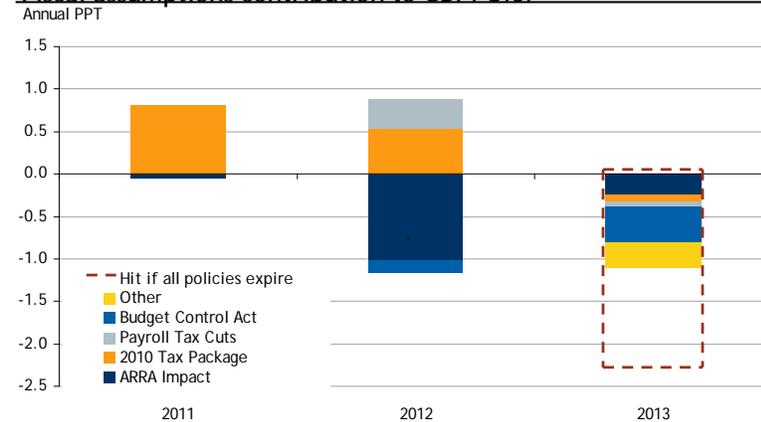
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## ...and the U.S. is on the edge of a fiscal cliff...

Expiry of all stimulus measures early next year would be a huge hit

### Fiscal assumptions contribution to GDP: U.S.



Source: Bureau of Economic Analysis, Macroeconomic Advisers, RBC Economics Research

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## ...but another global recession is *not* upon us

Economic indicators point to slow growth, not a contraction

### OECD total GDP vs. Global PMI: composite output



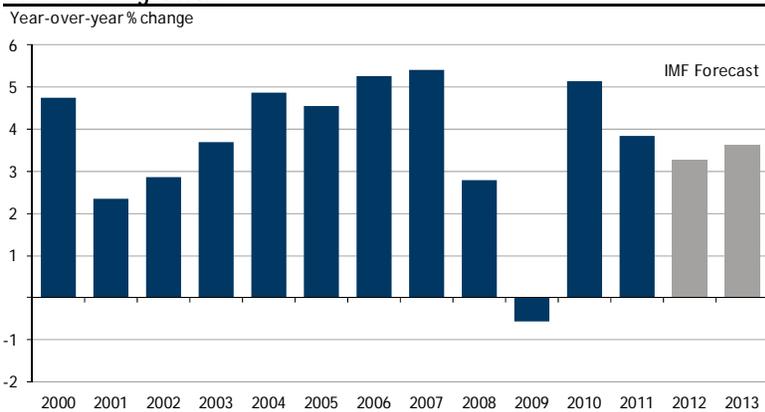
Source: OECD, JP Morgan, RBC Economics Research



## Global growth only slightly below average this year...

IMF projects 3.5% in 2012 vs. 3.7% average since 2000

### World GDP growth



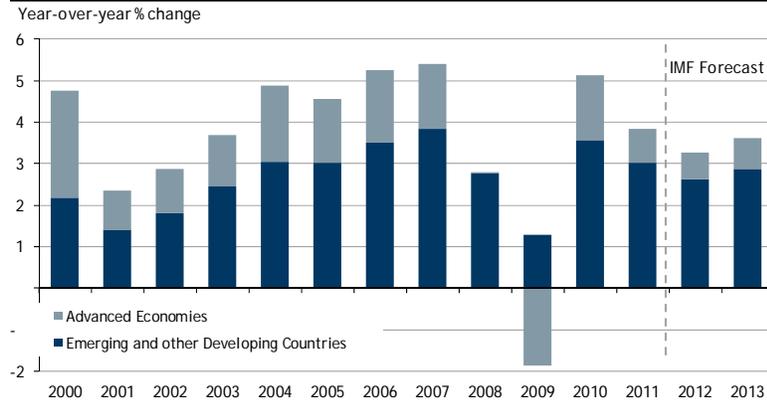
Source: International Monetary Fund, RBC Economics Research



## ...thanks to fast-growing emerging economies

Emerging economies will account for four-fifths of global growth

### Emerging and advanced economies contribution to world GDP



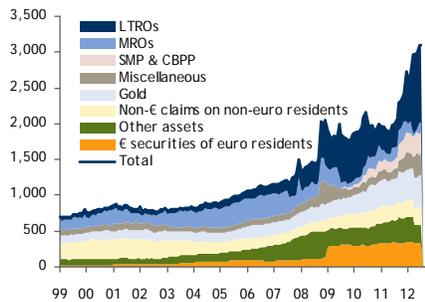
Source: International Monetary Fund, RBC Economics Research



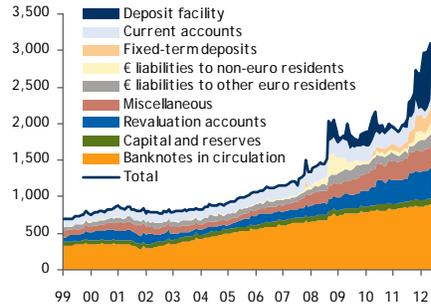
## Working assumption: European crisis will remain contained

ECB measures (e.g. €30 billion LTROs), ESM firepower (€500 billion)

### Assets



### Liabilities



Sources: ECB, RBC Capital Markets. Note: At end-2008 an accounting reclassification took place for securities that were previously disclosed under "other assets" but not part of an earmarked portfolio. The most important effect was to increase by €147.7bn "€ securities of euro residents", and to reduce "other assets" by €172bn. The reclassifications have no economic significance.



## Working assumption: U.S. fiscal cliff will be partly avoided

Enough common ground among parties: key measures will be extended

### Expiry of U.S. government stimulus measures: estimated impact on 2013 real GDP growth

Percentage points

	Expiry's impact	RBC's assumption
<b>2009 ARRA</b>		
Total impact	-0.3	-0.3
<b>2010 Tax Package</b>		
Middle income tax cuts	-0.3	0.0
Upper income tax cuts	0.0	0.0
Payroll tax holiday	-0.1	-0.1
Business expensing provisions	0.2	0.2
Emergency UI benefits extension	-0.1	-0.1
Total impact	-0.4	-0.1
<b>2011 Tax Package</b>		
Payroll tax cuts only	-0.1	-0.1
<b>Budget Control Act of 2011</b>		
Sequestration	-1.3	-0.4
<b>Additional fiscal drag</b>		
Total impact	-0.3	-0.3
<b>Total hit</b>	<b>-2.2</b>	<b>-1.1</b>

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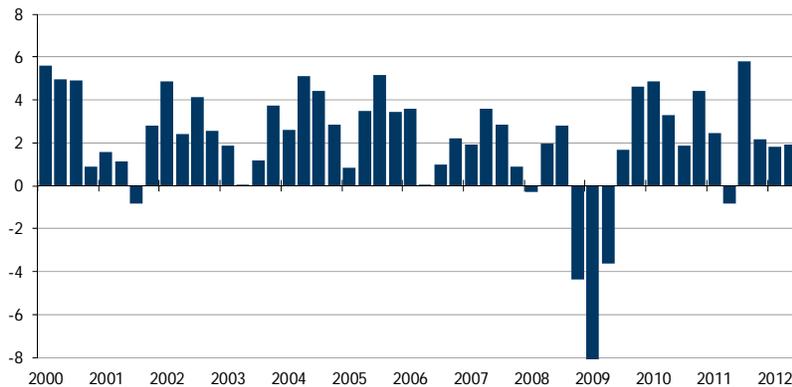


## Slower-than-expected start to the year in Canada...

Temporary shutdowns in mining sector, weather weighed on performance

### Canada's real GDP

quarter-over-quarter % change, annualized rate



Source: Statistics Canada, RBC Economics Research

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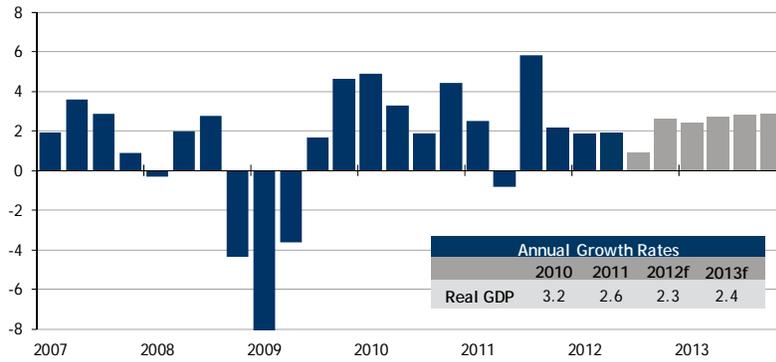
## ...but pace will pick up modestly next year

Temporary factors will reverse

### Canada's real GDP

Quarter-over-quarter % change, annualized rate

Forecasted values



Source: Statistics Canada, RBC Economics Research

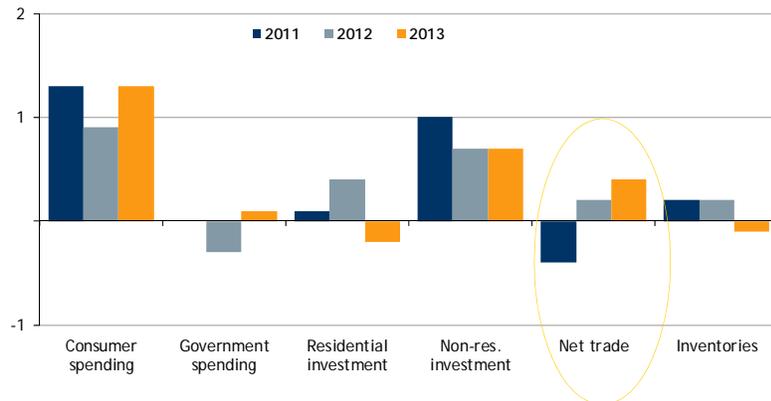


## External trade sector will finally contribute to growth...

Domestic growth fuelled by consumer spending and non-res investment

### Canadian real GDP growth composition

Percentage points



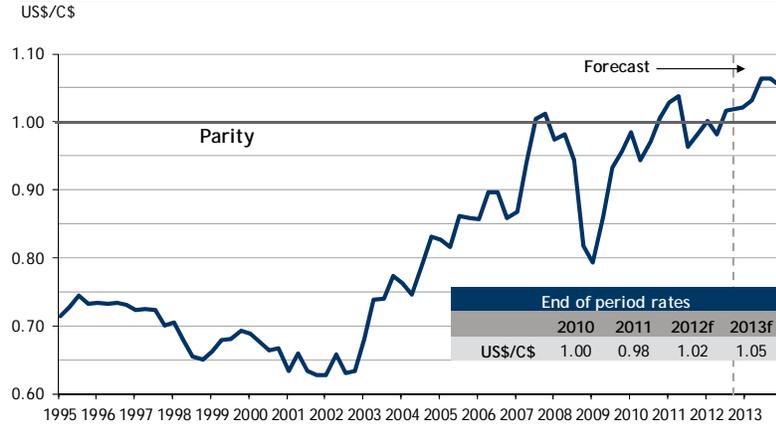
Source: Statistics Canada, RBC Economics Research



## ...despite the C\$ remaining above parity with US \$

Substantial near-term volatility as investor risk appetite fluctuates

### Canadian dollar forecast



Source: Bank of Canada, RBC Economics Research

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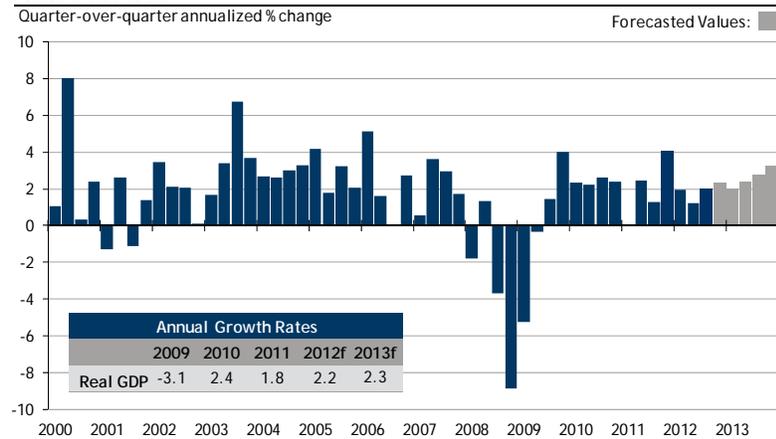
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## While U.S. growth will continue to be modest,...

Fiscal restraint will not derail the economy, although it poses risks

### U.S. real GDP



Source: Bureau of Economic Analysis, RBC Economics Research

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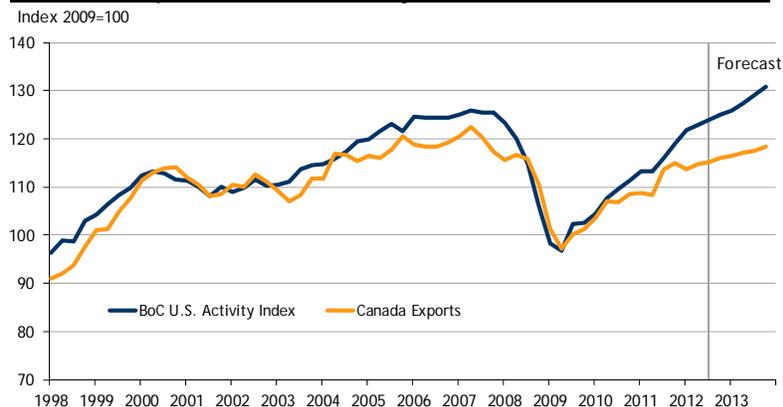
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## ...the pick-up of key U.S. sectors will boost Canada's exports

Auto sector, housing, industrial production, E&S investment looking better

### Canadian exports and U.S. activity

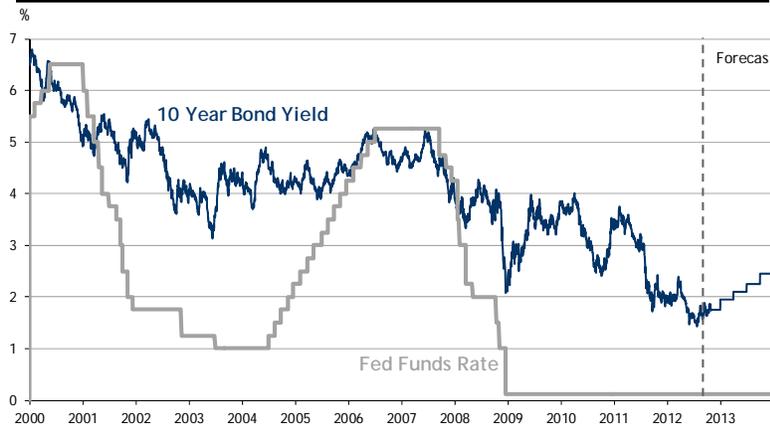


Source: Statistics Canada, Bureau of Economic Analysis, Bank of Canada, RBC Economics Research

## U.S. private demand stimulated by monetary policy

The Fed expected to leave its rate unchanged until 2015; QE3 launched

### Interest rates: U.S.



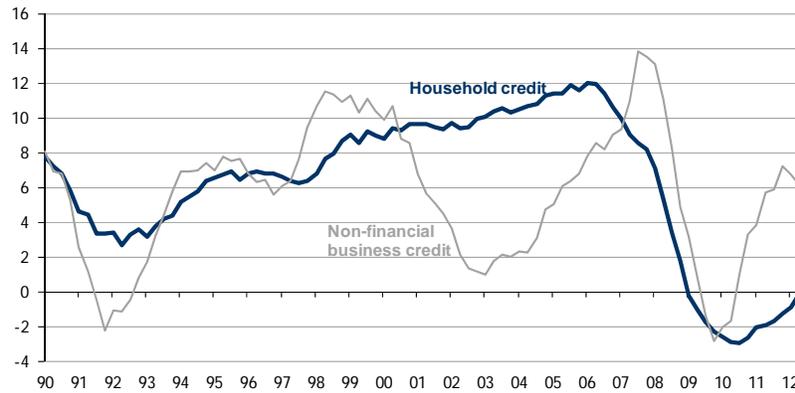
Source: Federal Reserve, RBC Economics Research

## The U.S. credit mechanism is functioning better...

Financing is becoming increasingly available

### U.S. household and business credit

% change, year-over-year



Source: Federal Reserve Board, RBC Economics Research

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## ...which helps consumer spending,...

Significant motor vehicle replacement cycle under way

### Auto sales: U.S.

SAAR, in millions



Source: Bureau of Economic Analysis, RBC Economics Research

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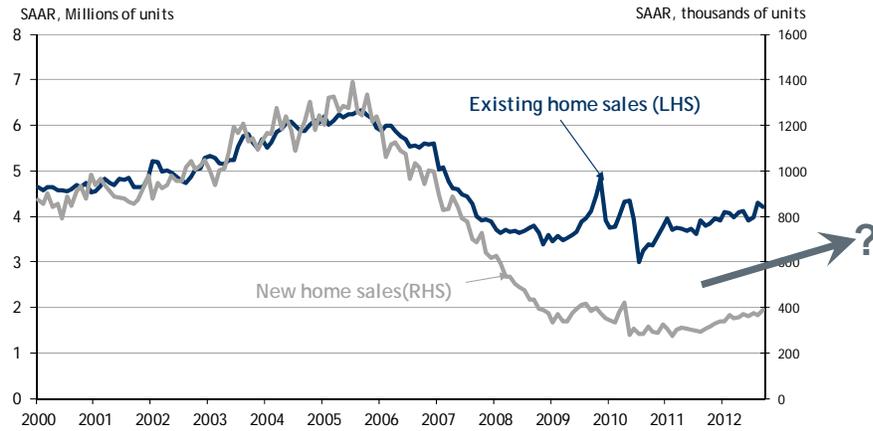
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## ...U.S. home sales,...

The market still has a long way to go but seems to have turned up lately

### Home sales: U.S.



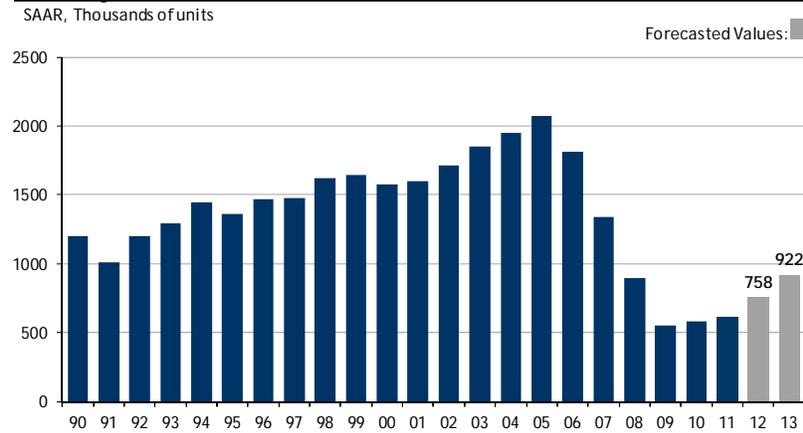
Source: National Association of Realtors, Census Bureau, RBC Economics Research



## ...and housing construction

Pre-crisis levels nowhere on the horizon yet but progress being made

### Housing starts: U.S.



Source: Census Bureau, RBC Economics Research

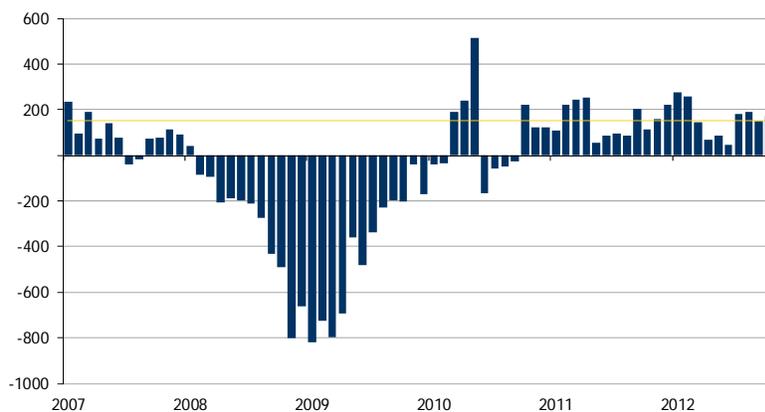


## Job creation will be key to further progress in the U.S.

Employment picture has disappointed this year; expecting improvement

### Nonfarm payroll employment in the United States

Monthly change (SA, Thousands)



Source: Bureau of Labor Statistics, RBC Economics Research

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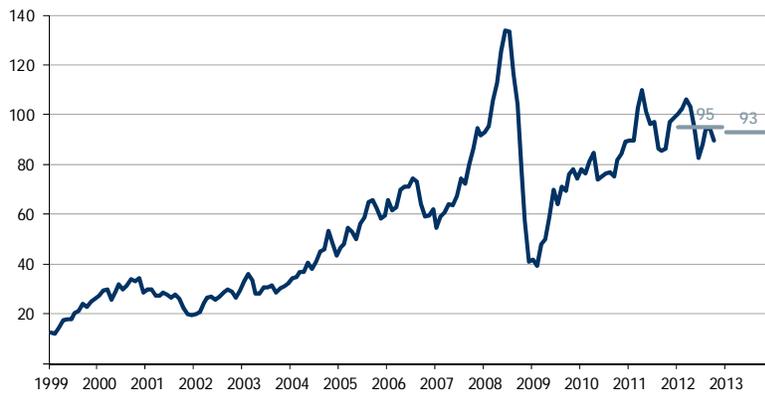


## Still-firm global demand for natural resources...

Despite significant market volatility this year

### Crude oil prices WTI

US\$/barrel



Source: Wall Street Journal, Haver Analytics, RBC Economics Research

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## ...sustains favourable terms of trade in Canada

High export prices provide a strong lift to incomes in our country

### Terms of trade: Canada

SAAR, 2002=100



Source: Statistics Canada, RBC Economics Research

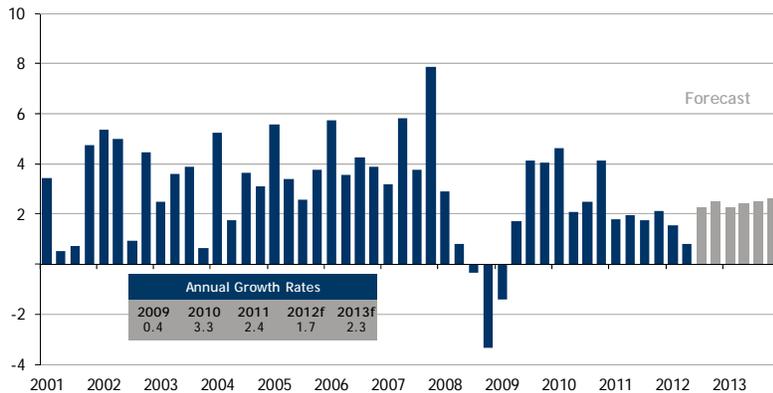


## Domestically, consumers will remain a force,...

Consumer spending expected to rebound from recent slowdown

### Consumer expenditures in Canada

Quarterly % change at annualized rate



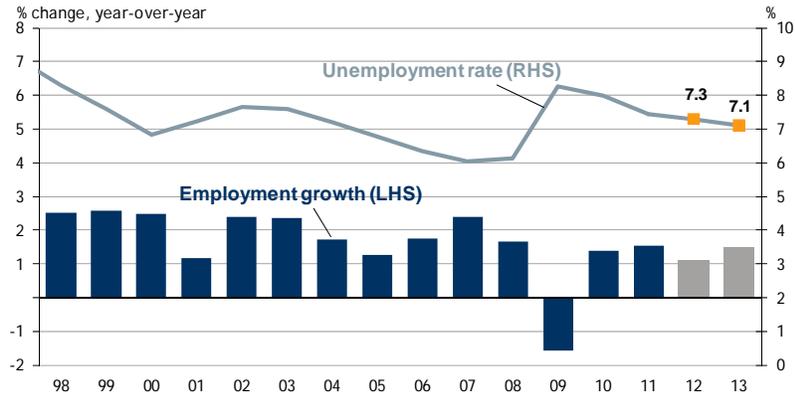
Source: Statistics Canada, RBC Economics Research



**...bolstered by continued improvements in the job market,...**

**Modest employment growth sustained; jobless rate edging lower**

**Job market in Canada**



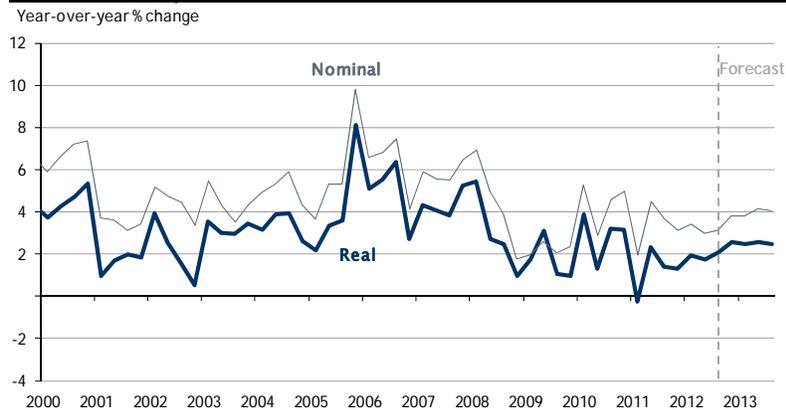
Source: Statistics Canada, RBC Economics Research



**...an attendant rise in household income...**

**Disposable income to accelerate slightly**

**Household disposable income: Canada**



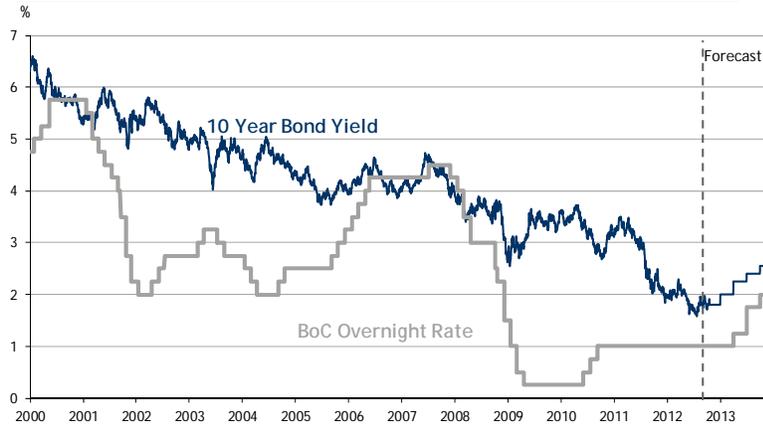
Source: Statistics Canada, RBC Economics Research



## ...and low interest rates

Although we expect the Bank of Canada to start raising its rate next year

### Interest rates: Canada



Source: Bank of Canada, RBC Economics Research

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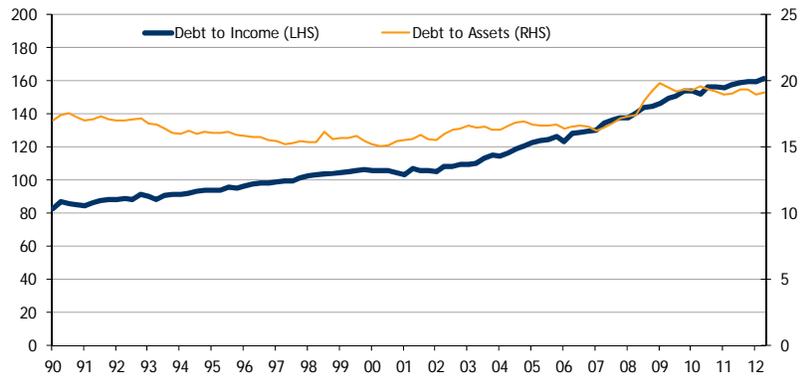
## Canadians' heavy debt load calls for increased prudence,...

At the very least, household will slow their accumulation of debt

### Canadian household debt

Credit market debt as a % of household disposable income

Credit market debt as a % of total assets



Source: Statistics Canada, RBC Economics Research

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## ...which is a key factor cooling the housing market

Latest changes in mortgage insurance rules also dampening activity

### Home resales in Canada

Thousands, SAAR



Source: CREA, RBC Economics Research



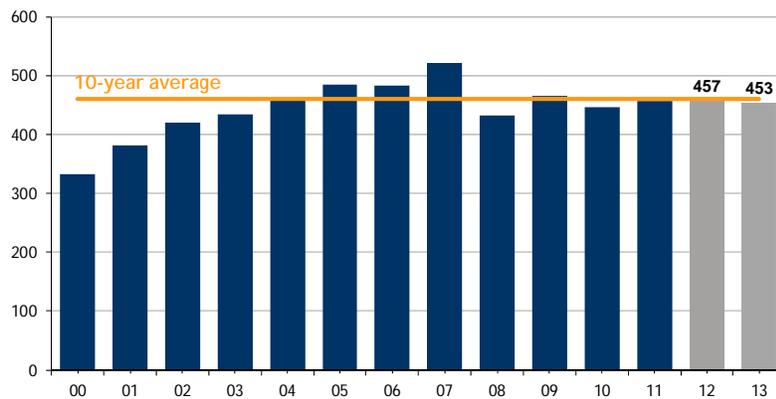
## Home resale activity to stay flat again next year

Market unlikely to collapse on its own but vulnerable to unexpected shocks

### Home resales: Canada

Thousands of units

Forecasted values: ■



Source: Canadian Real Estate Association, RBC Economics Research

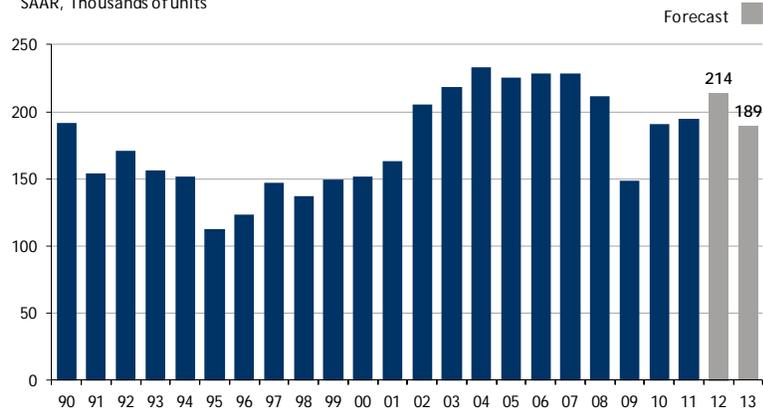


## New home building will soon begin to moderate

Surprisingly strong housing starts to date driven by condo boom

### Housing starts: Canada

SAAR, Thousands of units



Source: Canada Mortgage and Housing Corporation, RBC Economics Research

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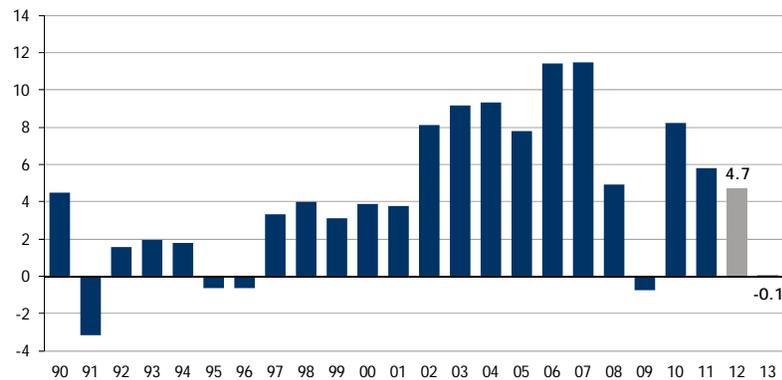
## Home prices to level off overall in Canada

Declines in BC; steady gains in Alberta and Saskatchewan

### Home prices in Canada

Annual % change, detached bungalow benchmark

Forecasted values:



Source: Royal LePage, RBC Economics Research

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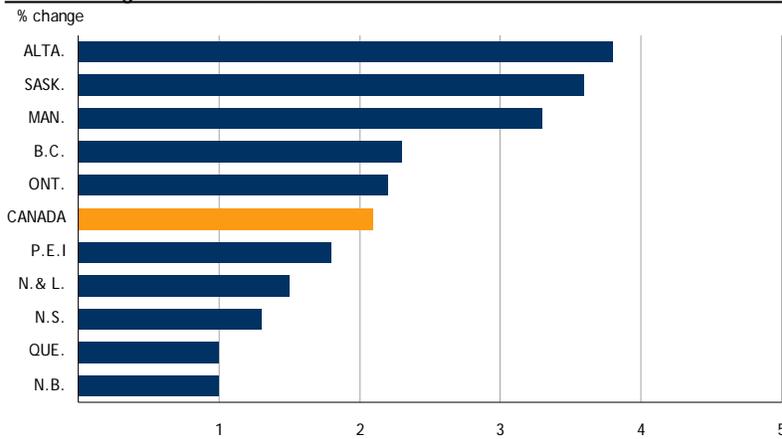
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## Western Provinces benefiting from the commodities boom

Alberta will top the provincial growth rankings this year

### Real GDP growth in 2012

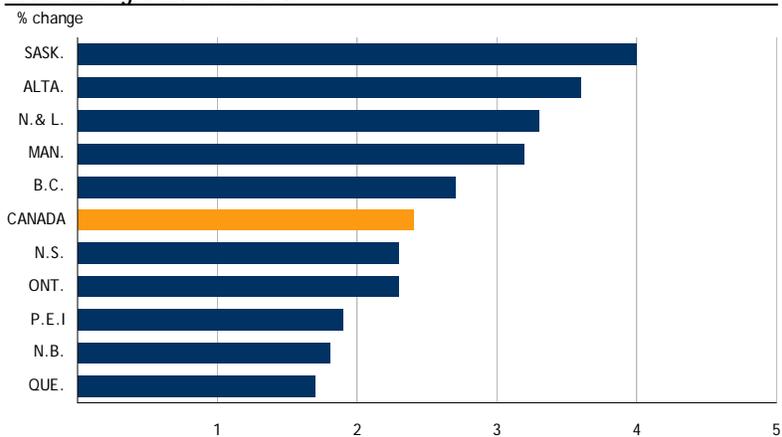


Source: Statistics Canada, RBC Economics Research

## Saskatchewan to take over the lead in 2013

Central and Eastern Canada below the national average

### Real GDP growth in 2013

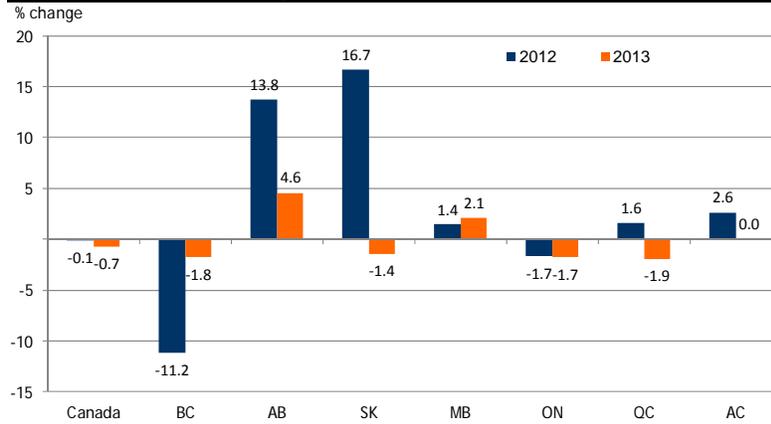


Source: Statistics Canada, RBC Economics Research

## Housing market to be the strongest in the Prairies

Slower activity virtually everywhere else in 2013

### Home resale forecast by province



Source: CREA, RBC Economics Research

## Maintaining a forward course...

...although many possible headwinds could cause a shift in direction

- European sovereign debt/banking crisis
- U.S. job market
- U.S. deficit
- Global commodity markets
- Major downturn in the Canadian housing market

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