

# Canada's economy will see 3.2% growth this year: RBC

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<http://www.canada.com/business/Canada/2011/06/10/canadas-economy-will-see-32-growth-this-year-rbc/>

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<http://www.theglobeandmail.com/report-on-business/economy/canadas-economy-will-see-32-growth-this-year-rbc/article2053118/>

Canada's economy will grow by 3.2 per cent this year, helped by high commodity prices and a continued recovery in the United States, according to the latest outlook from RBC Economics.

It expects gross domestic product will grow at a respectable 3.1 per cent pace in 2012.

"Strong demand for commodities and a revival in U.S. demand for autos will drive healthy gains in exports — at an average of nine per cent per annum for the next two years," RBC chief economist Craig Wright said in a report released Thursday.

However, RBC predicts a notable shift in the makeup of domestic growth.

Although consumers were the mainstay of growth coming out of recession, the key driver will switch from households — as consumer spending slows and household debt levels rise — to business-driven growth as corporate investments pick up, the report said.

The positive outlook projects that lingering global economic crises — such as European debt and tensions in North Africa and the Middle East that are driving oil prices higher, and disappointing U.S. economic indicators — will begin to fade in coming months.

RBC's report suggests that the economy in the United States, Canada's largest trading partner and a key concern for forecasters north of the border, is moving into expansion mode. The bank projects growth in the U.S. economy will increase 2.7 per cent this year and 3.4 per cent in 2012.

Despite current global economic uncertainties, Canada's economy posted a 3.9 per cent gain in the first quarter of the year on the back of higher commodity prices, and growth is expected to moderate just slightly over the rest of the year.

"With more than 50 per cent of Canadian exports linked to natural resources, higher commodity prices have provided a substantive and positive boost to our economy," said Mr. Wright.

"Higher prices mean higher domestic income growth."

Rising commodity prices also helped buoy the loonie above parity with the U.S. dollar in the five months of 2011, and the bank expects it to remain elevated for the rest of the year, which helps to spur business investment, Mr. Wright said.

"The dollar has made a remarkable recovery from the all-time low we saw in 2002, to within six per cent of its all-time high," he said.

"This improvement has caused a dramatic fall in the price of imported machinery and equipment and will likely drive Canadian companies to purchase imported goods to update their capital stock and improve Canada's productivity performance."

The forecast factors in the assumption that Canada's output gap will be eliminated in the second quarter of 2012 as the headline and core inflation rates are expected to hover close to the Bank of Canada's two per cent target.

"At this point, the level of uncertainty about the global economic outlook — worries about sovereign debt and fiscal balances — is driving the Bank of Canada to hold the policy rate at its current level of one per cent," Wright said.

"As concerns start to dissipate, attention will turn to domestic fundamentals."

RBC believes the Bank of Canada will likely raise its key interest rate from the current one per cent this fall, and it will sit at 1.75 per cent by the end of 2011 and three per cent by the end of 2012.

That could put further pressure on Canada's housing market, which is already slowing due to eroding home affordability amid sky high home prices.

"Rising interest rates will largely be balanced by growing income levels and ultimately contribute to a stable home price environment," Mr. Wright said.

"With interest rates heading higher, we anticipate that the volume of home sales will calm and prices will post very modest gains."

At the provincial level, Alberta will lead economic growth with Newfoundland and Labrador following closely behind.

The other Prairie provinces, Saskatchewan and Manitoba, are expected to achieve above-average growth this year, while Ontario will post average growth and British Columbia and the Atlantic provinces fall to the lower end of the pack.

