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Canadian Economy Gaining Steam: BMO

TORONTO, Ontario, June 22, 2010 — The Canadian economy is gathering steam, with Western Canada leading the way and all provinces participating, according to the Provincial Outlook report issued today by BMO Capital Markets Economics. Canadian growth is expected to reach 3.4 per cent in 2010 and 3.1 per cent in 2011, providing a strong rebound from the 2.5 per cent decline in 2009.

“Real GDP will likely expand across the country in 2010, with the strongest growth rates seen in Western Canada as commodity-sector activity recovers from a depressed year in 2009,” said Michael Gregory, Senior Economist, BMO Capital Markets. “The theme of the ‘West Outperforming the Rest’ should persist into 2011 as global commodity demand remains firm, while a strong Canadian dollar tempers growth in Central Canada and capital investment activity begins to wane in Atlantic Canada.”

Western Canada

- Western Canada is poised to benefit from a rebound in commodity prices, firming global demand for raw materials and a lower overall cost environment in the energy sector.
- Oil prices have more than doubled from their recession lows, and investment activity in Western Canada has started to pick up as a result.
- At the same time, reduced royalty rates in Alberta and various incentives in B.C. and Saskatchewan have helped improve the energy economics in the region, and have removed some of the political uncertainty surrounding the Alberta royalty regime.
- Meantime, Western Canada’s post-recession fiscal hole is much shallower than in Central Canada, and as a result, the impact on growth of budget-balancing measures will be milder in the coming years, allowing real GDP growth of about 4 per cent per year through 2011.

Central Canada

- The recovery is also well underway in Central Canada, as auto production has rebounded from the depths of recession, and Ontario’s housing market has roared back to see record sales and price levels.
- While housing is expected to cool through the rest of 2010, and the manufacturing sectors in Ontario and Quebec will continue to bear the weight of a strong Canadian dollar, domestic demand will pick up the slack.
- Indeed, retail sales have rebounded to record levels in both provinces, as have the number of service-sector jobs.
- However, longer-term growth in the region will be challenged by fiscal restraint—Ontario faces the largest budget deficit in the country and Quebec has already begun to implement tax increases and spending restraint.
- Taken together, these factors all point to below-average economic growth of slightly less than 3 per cent per year through 2011.

Atlantic Canada

- Atlantic Canada’s outlook remains stable.
- Aside from Newfoundland & Labrador (which was hit by some one-time factors), the region saw very modest real GDP declines in 2009.
- One factor supporting growth during the recession was capital investment in both the public and private sectors.
- While government stimulus remains strong in the region, some major private-sector projects will wind down in the next few years.
- This, combined with an ongoing challenge in the manufacturing sector, will lead to below-average growth of about 2.5 per cent per year through 2011 in Atlantic Canada.