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WHEN IT COMES TO CANADA'S RESOURCE SECTOR, PERCEPTION IS REALITY, SAY TD ECONOMISTS

- Canada's resource sector is perceived by investors as one of the world's top resource plays
- This image lines up with the sector's actual contributions in terms of Canadian output, jobs and income generation
- Some cooling in resource activity in store, but sector's long-term outlook has never been brighter.
- Resource growth potential will continue to open doors for attractive long-term equity returns.
- Still, the rising resource contribution to Canada's economy suggests domestic financial markets may be prone to short-term gyrations.

TORONTO – The widespread perception of Canada as a global resource powerhouse has long been transmitted through Canadian equity and currency markets, where buying and selling has been closely tied to swings in commodity prices. In a comprehensive report that looks at the importance of the resource sector on both the Canadian and global landscape, TD Economists argue that this image is far from a mirage. Indeed, it is well-grounded in reality. "The resource sector is a vital generator of living standards in Canada and boasts a strength and diversity that is matched by few nations around the world," says Derek Burleton, an Associate Vice President and Senior Economist with TD Bank Financial Group.

Resource contributions to Canada impressive

The combined activities of Canada's primary and resource-based downstream manufacturing and services industries contribute 13% to real Canadian gross domestic product (GDP) and are responsible for 1 million jobs, placing the sector second only to financial services in terms of importance. Yet these figures understate the true footprint left by the commodity-based industries on Canada's economic fabric. "What really drives the point home are the contributions that the sector makes to capital spending, exports, government revenues and Canada's largest companies, which are well above its GDP share." adds Burleton.

TD economists also looked at the weight of resources on a regional basis. While some provinces stand out in terms of resource reliance, such as Alberta and Newfoundland & Labrador, exports of commodity-based goods comprise at least one-third of total exports in most jurisdictions. "Even in Ontario, which has a relatively small resource-to-GDP share of about 8%, some smaller northern communities like Greater Sudbury have resource contributions as much as 15-20%," argues Burleton.

Canada's resource sector a big player internationally

The country's status as a favorite global resource play has even more to do with the sector's prominent position in the global marketplace. About one-fifth of mineral exploration expenditures are targeted for Canada, surpassing all other countries and the country is a world-leading producer in virtually every key area. "There are perhaps a few other nations that might compete with Canada in terms of diversity and size of resource wealth, such as Russia. But if you take into account this country's low political risk and open access to the U.S. market, Canada is second to none," says Burleton.

Implications for investors

The next 6-12 months is likely to bring a period of weaker U.S. economic growth and choppier waters for resource markets. Still, with the consensus having formed around the expectation that commodity markets have entered a "new era" of higher prices, the longer-term outlook for Canada's resource sector is strong. Accordingly, the perception – and reality – of this country as a global resource powerhouse are almost certain to remain in place, opening up doors for attractive Canadian equity returns over the medium-to-longer haul.

At the same time, however, the opportunities will come with some challenges. One in particular relates to risk. While the Canadian economy as a whole is less prone to wild rides than in the past, resource output and income will always be more vulnerable to abrupt changes in fortunes than any other major sector. Canada's resource-heavy financial markets will also be more susceptible to swings than those in most industrialized countries given that commodity prices are increasingly influenced by global investor – rather than commercial – flows. “Geographic diversification is an excellent way for investors to manage the risk of short-term gyrations in Canadian equity markets that flow from ups and downs in commodity prices,” says Burleton.

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For more information, please contact:

Derek Burleton	Natasha Apollonova
AVP and Senior Economist	Economist
416-982-2514	416-982-2555

Canada’s Image as a Global Resource Giant: More Than Just Perception, It’s A Reality (including charts and detailed tables), is available in PDF format on TD Economics’ Home Page at: www.td.com/economics.