OBSERVATION

TD Economics

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RELEASE OF 2012 PROVINCIAL GDP CONFIRMS MOMENTUM ADVANTAGE IN THE WEST

Highlights

- A first look at 2012 provincial growth performance was released on Friday, April 26th. The western provinces recorded the strongest rates of growth for the year, maintaining a trend of outperforming the central and eastern provinces since the recovery began.
- The relative importance of certain sectors within each province can make or break a region's performance; this was certainly the case for 2012. Resource-rich provinces were the clear outperformers as most oil producing regions – including Manitoba – outperformed the national average in 2012. Newfoundland and Labrador was the clear exception as it suffered a sharp decline in real GDP largely reflecting decreased oil production.
- The manufacturing and services sectors also spelled success for some provinces, but worked against others. Ontario, Prince Edward Island, Alberta and Manitoba saw manufacturing output rise; while Québec, New Brunswick and Nova Scotia saw a decline in manufacturing activity. Output in the public administration sector was down across half of the provinces, reflecting the current fiscal climate.
- These results do not lead us to alter our forward-looking views, with seven of ten provincial economies expected to expand at a sub-2% pace in 2013. That said, the commodity–based economies of Alberta and Saskatchewan are likely to continue their outperformance while Newfoundland and Labrador is expected to jump to the top of the pack on the heels of stronger oil output.

The first snapshot of Canada's economic performance for 2012 on a provincial basis was unveiled on Friday, April 26th with the release of Provincial GDP by industry. As expected, the provinces west of Ontario provided the main impetus for national growth owing in large part to their resource–rich economies and stronger population growth. The central and eastern provinces all lagged the national average reflecting disappointing expansions in key sectors. This result is not a new trend. Armed with the 2012 showing, the western region of Canada has performed the best since the recovery began (see Chart 1). These GDP by industry data (at basic prices) should be distinguished from the market price expenditure based GDP estimates that are typically cited[1]. It is the latter series on which our forecasts are based. The release of the expenditure-based estimates for 2012 follows in the autumn. These measures tend to be closely aligned (historically growth rates between the two differ by less than 0.3 percentage points at the provincial level). Thus the basic price estimates provide a solid barometer for the expenditure-based measure.

Aside from a few surprises, such as the outright declines recorded in Newfoundland and Labrador and New Brunswick as well as the slightly stronger growth performance of the Prairie provinces, the GDP by industry figures line up with the estimates provided in our recently released Provincial Economic Forecast.

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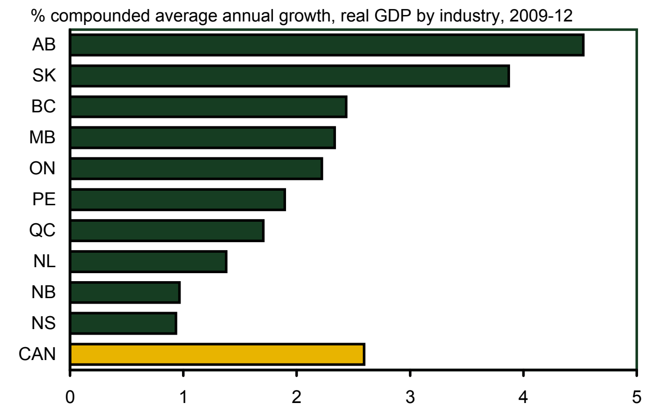
TABLE 1: REAL GROSS DOMESTIC PRODUCT BY INDUSTRY Annual average per cent change					
	2008	2009	2010	2011	2012
CANADA	1.1	-3.0	3.4	2.6	1.8
NL	-1.1	-10.0	6.4	2.8	-4.8
PE	0.9	0.4	2.8	1.7	1.2
NS	2.3	-0.5	2.1	0.6	0.2
NB	1.0	-0.8	3.3	0.2	-0.6
QC	1.6	-0.7	2.5	1.7	1.0
ON	-0.2	-3.3	3.5	1.8	1.4
MB	4.0	-0.4	2.6	1.8	2.7
SK	5.2	-4.2	4.5	5.0	2.2
AB	1.7	-4.6	4.3	5.3	3.9
BC	1.1	-2.7	3.0	2.6	1.7

Note: GDP by Industry growth is expressed at basic prices.
Source: Statistics Canada

CHART 1: WESTERN PROVINCES LEADING THE WAY SINCE THE RECESSION



Note: GDP by industry growth is expressed at basic prices.
Source: Statistics Canada, Haver Analytics and TD Economics.

Primary sector: the engine for growth in Western Canada

The commodity based economies of Alberta (+3.9%), Manitoba (+2.7%) and Saskatchewan (+2.2%) took the top three places on the leader board in 2012, due in part to solid output in oil production. Despite the increased price discounting oil producers from the western region faced towards the end of 2012, production in the oil and gas extraction industry was up 6% and 7% in Alberta and Saskatchewan respectively. Although its share of total Canadian oil production is much smaller relative to other oil-producing provinces, Manitoba has also seen its production increase in recent years due to increased activity in the Williston Basin – located in the southwest region of the province. This trend continued in 2012, with output in Manitoba's oil and gas extraction industry advancing 26% for a third consecutive year. In Atlantic Canada, oil production fell sharply in Newfoundland and Labrador reflecting a natural decline in production from reserves and scheduled maintenance disruptions[2].

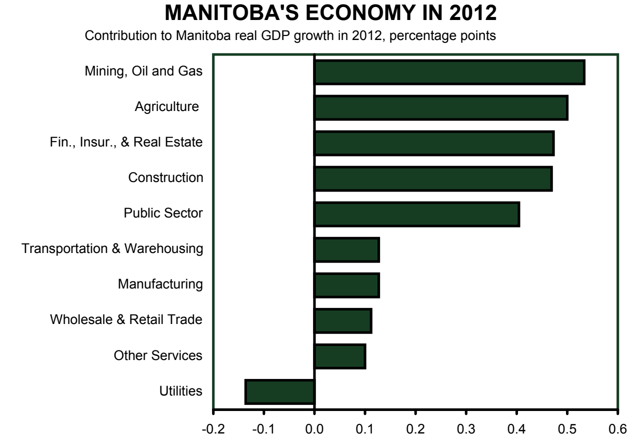
The general gains seen in the oil and gas extraction sector offset weakness in mining output across the nation. With the exception of Québec and B.C. which experienced increased production through its metal ore mines, all provinces saw output declines in mining in 2012 reflecting a lower price environment.

The resource story explains the contraction of the Newfoundland and Labrador economy in 2012. The mining, quarrying, oil and gas sector accounted for one-third of total nominal economic activity in 2012. The fall in both oil and mining production weighed heavily against economic growth for the year. Conversely, the primary sector in Manitoba powered its economy forward in 2012 despite accounting for approximately 8% of the total economy (see Chart 2). The province not only benefited from strong output in its oil and gas industry, but also increased production in its agricultural sector (+15%) as crop production rebounded in 2012 due to better weather conditions.

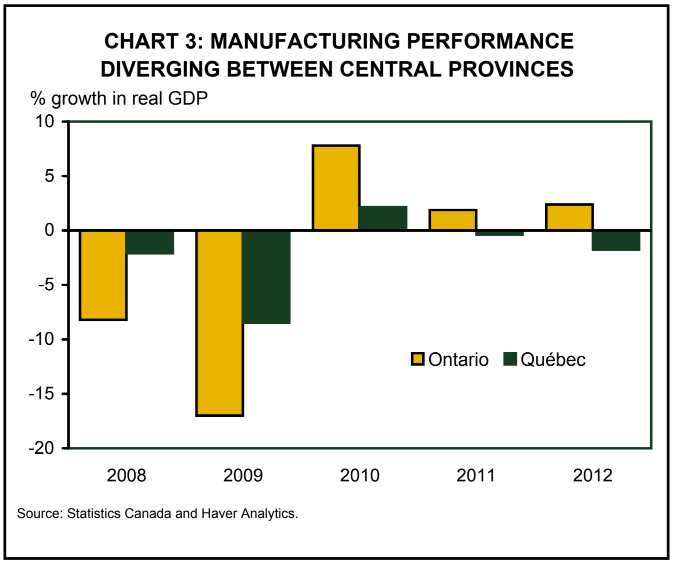
Manufacturing not firing on all cylinders across Canada

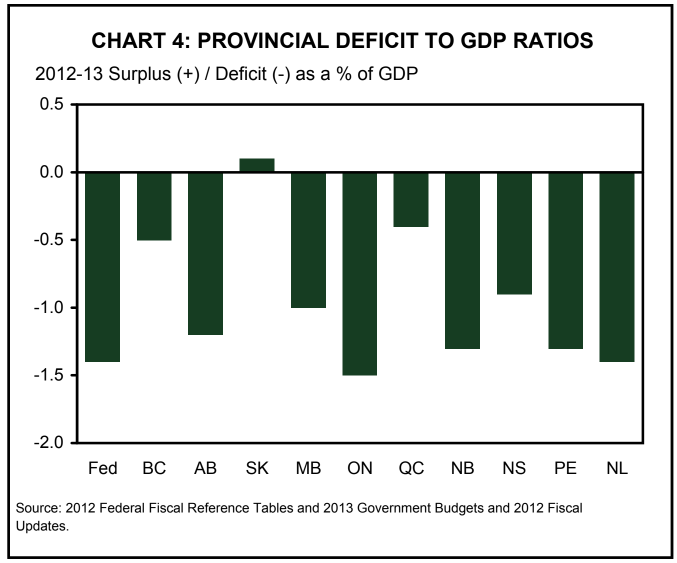
Manufacturing sector performance was a mixed bag across the country. Ontario benefited from increased U.S.

CHART 2: PRIMARY SECTOR FUELING MANITOBA'S ECONOMY IN 2012



Note: Public sector includes the education, health care and social services and public administration industries.
Source: Statistics Canada, Haver Analytics and TD Economics.





demand for autos as the auto industry (+17%) drove the Ontario manufacturing sector to a respectable +2.4% gain in 2012. Québec was not as lucky, as reduced activity in its key industries of aerospace, primary metal and food manufacturing led to a 1.8% decline in its factory sector in 2012 (see Chart 3).

Prince Edward Island fared better; it saw its manufacturing sector increase by a solid 5% in 2012 on the back of improved production in the food, chemicals and transportation equipment (which includes aerospace products) industries. Manitoba (+1%) and Alberta (+5%) saw their manufacturing sectors advance as well. Alberta posted notable increases in output in the fabricated metal product and machinery manufacturing industries.

Both New Brunswick and Nova Scotia experienced decreases in their manufacturing sectors reflecting declines across a number of industries.

Population growth spurring residential construction activity

Output in the residential construction industry increased across all provinces in 2012, but was more pronounced in the Prairie region with Alberta (+14%), Saskatchewan (+16%) and Manitoba (+10%) all recording healthy gains. These markets received a boost from rising populations, as they posted the strongest rates of population growth in Canada in 2012.

Newfoundland and Labrador received a lift from engineering activity as total construction output increased 32%. The healthy gain in engineering production likely reflects the strong investment spending tied to oil and gas extraction. The other Atlantic provinces did not fare as well, as an ageing population growing at a pace below the national average weighed down on residential construction. Non-residential construction output was down as well.

Services sector output in 2012: real estate markets and fiscal restraint leave their mark

Output in the services sector was up across all provinces in 2012; however, it was not a universal story.

The real estate, rental and leasing sector was a major contributor, but does include the "owner-occupied dwellings" industry which is one of the largest service sector industries across all provinces[3]. One interesting take-away from this sector is the diverging performance of the office of real estate agents and brokers industry. As one would expect, the output in this industry mirrored the resale housing market activity by province. Thus, provinces such as B.C., Ontario and New Brunswick – where signs of cooling in housing were more pronounced – posted notable declines; while Alberta and Saskatchewan saw healthy increases in production within this industry.

The retail trade sector registered a solid performance in a number of provinces. Regions that have benefited from recent strength in population growth – notably Saskatchewan and Alberta – recorded strong gains with this sector. Output by retailers was also important to the services sector in Newfoundland and Labrador as well as Nova Scotia as both provinces saw increased activity by retailers of motor vehicles and parts.

A quick look at public sector performance shows public administration output declining or remaining flat in most provinces – with the exception being in the Prairie provinces. This result is in keeping with the current fiscal climate as almost all provinces – apart from Saskatchewan – were running fiscal deficits for the 2012-13 fiscal year (see Chart 4). In other areas of the public sector, production was up in the education and health care and social services industries in all provinces in 2012.

Alberta's service sector performance stood out from the rest in that gains were broad based across most industries. This result likely reflects the positive effect increased oil sands production is having on peripheral sectors such as transportation and warehousing, and accommodation and food services.

Looking ahead to 2013

The recent provincial GDP numbers do not markedly alter our view regarding our economic forecast for 2013. Economic activity is likely to remain muted, as the scaling back of investment intentions, combined with the recent cool down in commodity prices, a weaker housing market and sluggish U.S. growth, especially in the first half of this year, are all working against provincial economies in 2013. That said, some provinces are expected to outperform in 2013. Alberta and Saskatchewan stand to benefit from strong forward momentum heading into the year, while Newfoundland and Labrador appears to be bouncing back with all three offshore oil production sites back on-line.

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End Notes

1. GDP measured at basic prices includes taxes net of subsidies on labour and capital inputs, but not taxes on final products.
2. "The Economy 2013", Government of Newfoundland and Labrador, March 2013.
3. Statistics Canada explains that in order to make value added arising from the use of residential real estate invariant to changes in ownership, homeowners are considered landlords renting houses to themselves. The fictitious industry "owner occupied dwellings" captures the imputed amount of such rents.