April 5, 2016

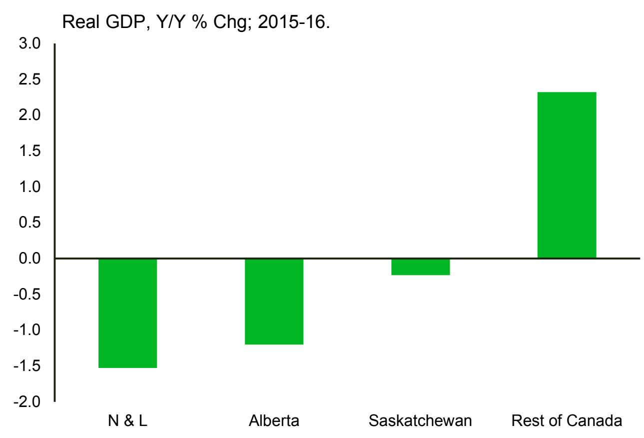
PROVINCIAL ECONOMIES INCREASINGLY DIVERGENT IN 2016

Highlights

- TD Economics has upgraded its outlook for the Canadian economy in 2016 and 2017, driven by a recent pick-up in export growth. However, forecast upgrades have largely been concentrated in provinces that rely more heavily on non-energy manufacturing, including Quebec, Ontario, Manitoba and British Columbia. Economic growth in these regions is expected to reach a robust 2.4-3.0% this year.
- In contrast, the negative economic hit from low oil prices is now expected to deepen in Alberta, Newfoundland & Labrador, and Saskatchewan. Together, 2015 and 2016 will mark the sharpest economic underperformance of oil-dependent economies relative to the rest of Canada since the oil crash of the 1980s.
- The divergences in regional performances has been particularly evident in the job market. However, a relatively mobile labour force in resource-rich economies should soon begin to act as a shock absorber as workers head to B.C., Ontario and Québec in search of better employment prospects. This dynamic should put a cap on how high the unemployment rate will get in these provinces, while serving to put a floor under the jobless rates in better performing economies.

The underperformance of Canada's top oil-producing provinces versus the rest of Canada last year has been well documented since the start of 2016. What has changed from the time of our last Provincial Economic Forecast (PEF) in January is the degree to which the gap in economic performances across Canadian provinces is expected to widen in 2016. In a pleasant turn of events, TD economics has upgraded its outlook for the Canadian economy in 2016 and 2017 primarily driven by growing evidence of both a pickup in – and broadening of – export growth. However, forecast upgrades have largely been concentrated in provinces that rely more heavily on non-energy manufacturing, including Québec, Ontario, Manitoba and British Columbia. Real GDP growth is expected to reach a robust 2.4-3.0% across these provinces this year, representing a forecast lift of 0.4 to 0.6 percentage points relative to our last PEF. In contrast, the negative economic hit from low oil prices is now expected to deepen in Alberta, Newfoundland & Labrador and Saskatchewan. Increased contractions are in store for Alberta and N&L this year, while Saskatchewan's growth rate

CHART 1: TD ECONOMICS' REAL GDP FORECASTS



Source: Statistics Canada. Forecast by TD Economics as at April 2016.

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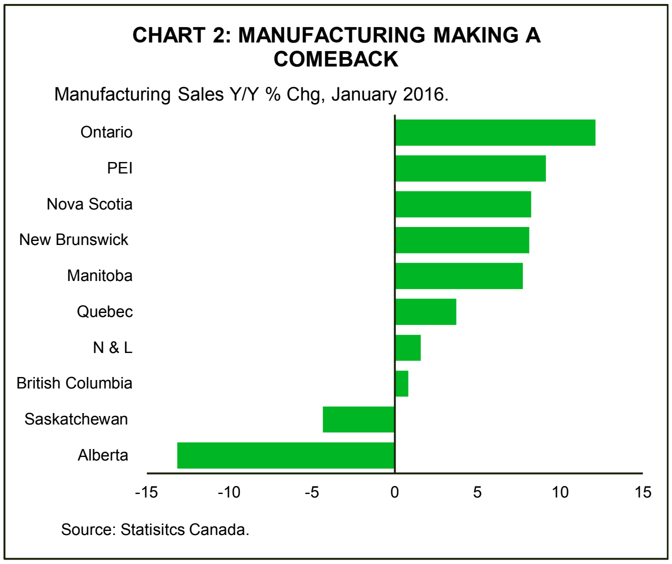


has been revised down considerably. 2015 and 2016 will mark the sharpest 2-year economic underperformance of oil-dependent economies relative to the rest of Canada since the oil crash of the 1980s (Chart 1).

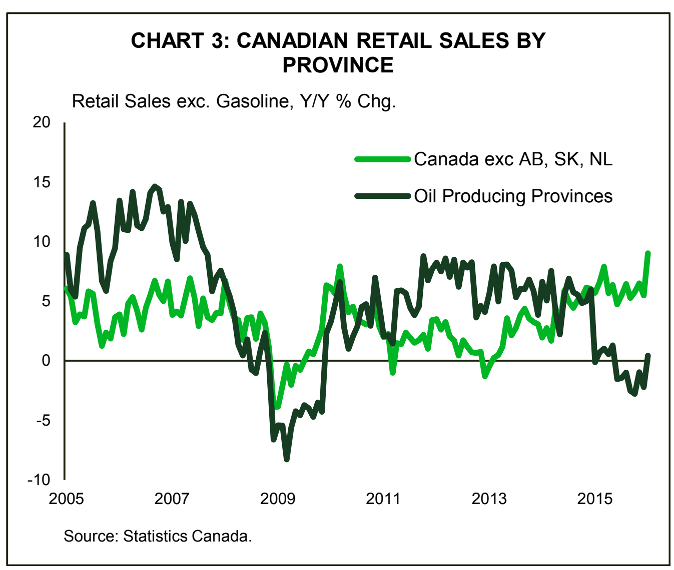
A forecast that has not changed since January is that of crude oil prices. We continue to see a gradual recovery in WTI prices over the next year, which should set the stage for a narrowing in the regional growth divide. In 2017, look for most regions to chalk up moderate growth of around 2%. Still, for Alberta and Saskatchewan, and N&L, such a rebound can only be characterized as weak.

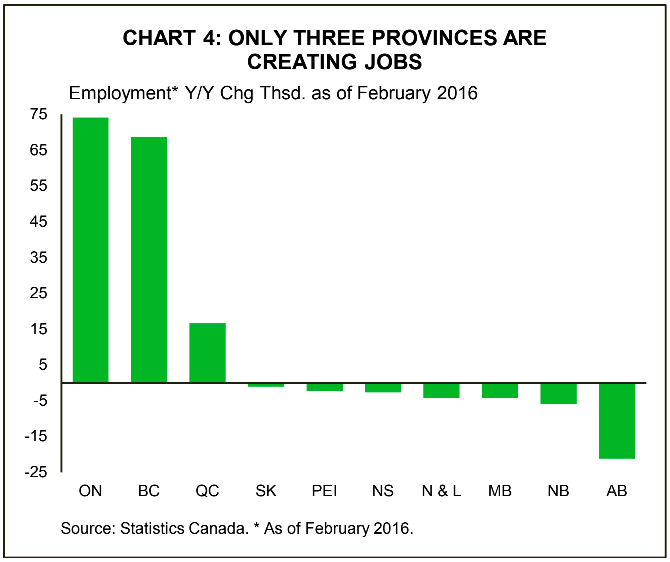
Economic divergence – how deep can it get?

At the time of our last economic forecast in January, key uncertainties surrounded the global and U.S. economies and their resilience in the face of heightened financial market turbulence. From an export perspective, the challenge was not just gauging U.S. demand but the timing and extent to which a low currency would feed through to higher demand for Canadian goods, appreciating that lags can be as long as 6 quarters. As manufacturing activity in late 2015 continued to disappoint, we had submitted to the view that the economic benefits of a low Canadian dollar would be more limited than we had previously believed and would be more concentrated in B.C. and Ontario. And for the oil-driven economies of Alberta, Newfoundland & Labrador and Saskatchewan, continued pressure from falling oil prices as the year began was a virtual certainty. Much less clear was the extent to which this weakness would ripple through economies in the form of second round effects.

Regarding the manufacturing story, the benefits of the Canadian dollar, in combination with solid U.S. demand, have delivered the export sector a bigger punch in the first quarter of this year than was expected. Manufacturing activity started to jump back in just about every province except for the big three oil producers (Chart 2) at the end of last year. Tourism (another currency sensitive industry) has also picked up considerably in most provinces across Canada helping to boost retail spending, with notable double-digit gains in British Columbia (Chart 3). A recent bump in the Canadian dollar to 76 U.S. cents at the time of writing may take some of the steam out of the export performance as the year unfolds. However, the Canadian dollar will remain a competitive advantage for Canadian exporters. In addition, despite a generally weak global backdrop, domestic demand in the U.S. is expected to remain solid throughout the forecast horizon, enforced by continued robust job creation. Stronger demand for houses, autos and other consumer goods in the U.S. will result in better export prospects for manufacturing-heavy provinces in Canada.

In contrast, despite crude oil prices playing out as expected, developments in the oil-producing economies have been decidedly weaker than we had forecast at the turn of the year. The depreciation in the Canadian dollar has also had positive implications for currency-sensitive areas in Alberta, N &L and Saskatchewan as well. However, the drag exerted by both direct – and mounting second-round effects – from low oil prices has been dominating any benefits from the currency. Corporate profits have been almost cut in half in these regions and the resulting hit to business spending is expected to shave up to 4 percentage off economic growth in 2016. Even a sharp drop in business travel has completely offset record levels of visits to Alberta's national parks on





sectors that are traditionally driven by tourism, such as accommodation and food services. Consumer spending and housing markets in these regions have been adjusted lower in response to weaker than expected monthly readings in early 2016.

Looking ahead, oil prices appear to have reached a bottom with the price of WTI expected to trend gradually upward to US$50 a barrel by the end of the year. Despite this increased traction, we remain cautious regarding economic recovery prospects in Canada's three major oil patches, as second round effects continue and take a while to spur improved hiring and demand.

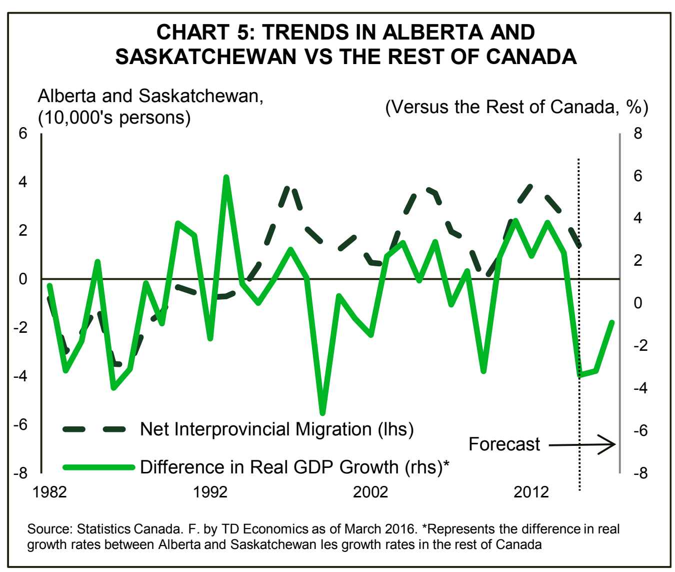
The unemployment rate – how high can it go?

The economic divergence has shown up in labour market performances. The best performing economies have continued to add jobs at a healthy clip (Chart 4), while oil-producing regions shed a significant number of jobs over the second half of the year. Unemployment rates in Alberta and N&L in particular have surprised on the upside, reaching 20- and 6-year highs, respectively. The labour market tends to lag the overall economy by one to two quarters. As such, the job losses among resource-heavy economies are likely to continue to mount through 2016 with the recession persisting.

However, it's not all doom and gloom. The population in Alberta and Saskatchewan is younger, more active in the labour force and more mobile than those in other provinces. The last time the economic divergence between the rest of Canada and resource-rich economies was this wide in the 1980s, Alberta and Saskatchewan recorded a combined annual outflow of between 20,000 and 40,000 interprovincial migrants (Chart 5).

We are not likely to see quite the same degree of interprovincial outflows as was the case 30 years ago. Rising homeownership rates suggest that the population in Alberta has become more permanent. Moreover, the Federal Government raised employment insurance benefits for those living in most effected regions, which may hold many unemployed pat. Still, outflows did pick up over the second half of 2015, and given that migration flows tend to lag rising unemployment rates by up to 2 quarters, interprovincial out migration is expected to accelerate in the quarters ahead. In particular, many of the hard skills of those in the oil patch and related manufacturing industries can be transferable to manufacturing and construction jobs in other parts of the country. Furthermore, rising outmigration and lower labour force gains in Alberta, Saskatchewan and N&L are likely to limit the upside in unemployment rates this year – before heading marginally lower in 2017.

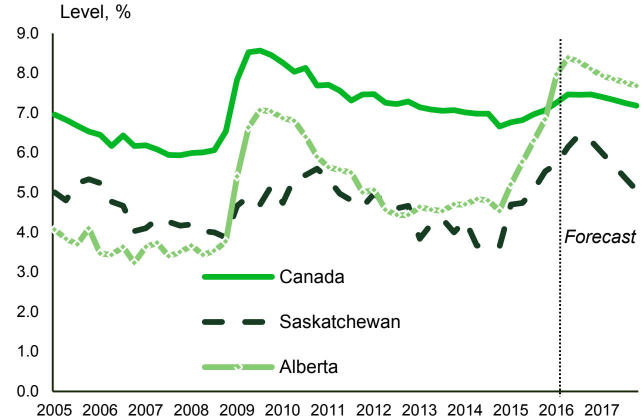
So where will all the people leaving resource-rich economies go? So far, the bulk appear to be headed for British Columbia, where net interprovincial migration hit a decade high in 2015. B.C. has also been the province where manufacturing jobs have come back the fastest. As such, even as the province continues to turn out a decent amount of new jobs, increased growth in labour supply is likely to hold the jobless rate relatively steady at around 6.2% to 6.4% until next year. Eventually, we do think that more and more people will also start to head to Ontario and Québec as manufacturing begins ramping up in Central Canada, which could put modest upward pressure on their unemployment rates.



Bottom line

The combination of the drop in oil prices and low Canadian dollar has driven a wedge between economic and employment prospects between manufacturing heavy economies and those that rely more heavily on resources (predominately oil). A relatively mobile labour force in resource-rich economies, however, will act as a shock absorber on unemployment rates. We expect to see a pick-up in out-migration as workers head to B.C., Ontario and Québec in search of better employment prospects. This will put a cap on how high the unemployment rate will get in oil-torn provinces, but also a floor under the unemployment rate in better performing economies.

CHART 6: UNEMPLOYMENT RATES BY PROVINCE



Source: Statistics Canada. F. by TD Economics as of April 2016

NEWFOUNDLAND AND LABRADOR

Aging, oil & gas fields, an ongoing rout in commodity prices, conclusion of large non-residential construction projects, and government restraint have all manifested in a multi-year downturn of the Newfoundland and Labrador economy. As such, we are maintaining our weak outlook for the Province, with the economy likely to contract by 1.0% this year, before eking out a modest gain of 1.1% in 2017.

Crude oil production is anticipated to remain flat in Newfoundland and Labrador over the medium-term, as declines in production elsewhere are offset by new production at the South White Rose Extension completed last summer. Oil production should begin to rise when Hebron comes online, slated to take place in late-2017. Still, ramping up to full capacity will take time. Current Brent prices remain depressed, around US$40/bbl, and the substantial uncertainty around future prices creates considerable downside risk around future investment. Recently, Statoil has withdrawn interest in the potential development in the Bay du Nord field.

The broader rout in commodity prices has also lead to the closure of a copper & zinc mine. As well, two iron ore mines have passed peak production, suggesting that mining output will contract in 2016 before stabilizing the following year. There is some hope beyond 2017, as an expansion of Vale's Voisey's Bay operations could increase future production.

Non-residential investment is also suffering from the downturn in commodity prices. The Alderon Iron ore company is delaying construction of transmission lines for mining projects, while their Kami iron ore mine has been again rescheduled for later construction. While work on the $14 billion Hebron oil platform is progressing, the $2.8 billion West White Rose extension has been delayed for three years. Delays and cost overruns at the Muskrat Falls hydroelectric project will help buoy non-residential investment numbers, however at a significant cost to government coffers. All told, we anticipate non-residential investment to rise by about 25% in 2016, before a smaller 10% decline in 2017.

Low commodity prices are also creating considerable funding gaps in the provincial budget. Provincial offshore royalties have decreased from 38.7% of total revenues in 2012 to 26.4% last year. They are anticipated to decline further as the price of Brent oil benchmark declines 17% on annual average basis in 2016. This is creating a ballooning gap in revenue for the government and will lead to significant expenditure restraint in order to stabilize the budget. As such, without significant federal assistance, fiscal drag will weigh on GDP growth through the forecast period.

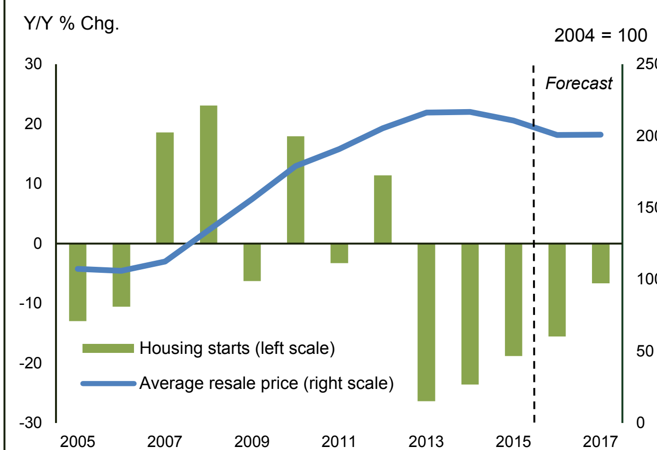
N&L - TD ECONOMICS' FORECASTS

Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	5.8	-2.0	-2.1	-1.0	1.1
Nominal GDP	9.2	-4.2	-6.0	-2.1	3.1
Employment	0.8	-1.7	-1.0	-1.7	0.0
Unemployment rate (%)	11.6	11.9	12.9	14.0	13.7
Consumer Price Index	1.7	1.9	0.4	1.6	1.9
Retail trade	5.0	3.4	0.4	1.1	0.9
Housing starts	-26.3	-23.6	-19.0	-15.3	-6.7
Existing home sales	-7.5	-4.7	3.7	-14.9	0.8
Avg. existing home price	5.4	0.2	-2.8	-8.5	-0.2

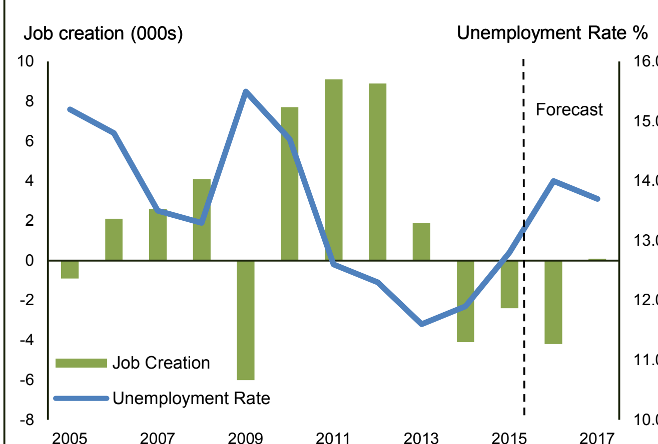
E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics

N&L: HOUSING MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

N&L: LABOUR MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

PRINCE EDWARD ISLAND

Tourism, which propels much of PEI's export activity, is forecast to expand this year and next after some consolidation in 2015. Lower gasoline prices, a softer Canadian dollar, and more U.S. discretionary spending are some of the supporting factors anticipated to boost ferry and bridge traffic in 2016 and 2017. Importantly, the Charlottetown Harbour Authority is expecting a high level of cruise ship calls – about 60 this year – and will build on the number of ships with overnight stays, helping foster activity in the theatre and hospitality services in the city.

A bumper crop of wheat and barley is slowly being moved to market through early-2016, and should boost incomes for provincial farmers. The potato crop, which typically accounts for nearly 80% of PEI's cash crop receipts, is also anticipated to rebound in 2016, after seeded acres fell last year. Additionally, cattle producers as well as PEI's small and large abattoirs, continue to benefit from buoyant cattle prices which remained in the US$140 per hundredweight as of March. Agricultural producers will continue to benefit from a low Canadian dollar, as their products are denominated in U.S. dollars.

Fish landings are also expected to recover in 2016 following a shorter fishing season last year. U.S. and Asian demand for lobster and other shellfish should continue to trend higher, buoyed by more robust economic activity and reduced trade barriers. PEI's 'penny a pound' levy for lobster fishermen beginning this spring will fund marketing by a new lobster commodity board, complemented by expanded sustainability certification for international markets. Improved holding facilities for transporting lobster by air are intended , with plans to also increase mussel processing capacity on the island.

Robust aerospace production is expected to help boost manufacturing in 2016, with a new engine test facility completed last year propelling activity. PEI's manufacturers may also be able to capitalize on Nova Scotia's shipbuilding contracts as production ramps up this year and spurs demand, especially for fabricated metal and machinery products.

The robust tourism, agriculture, and aerospace activity will all help lift employment and wages after a soft end to 2015, and boost domestic consumption this year and next. All told, we expect PEI's economic activity to expand by around 2% in 2016 and 2017.

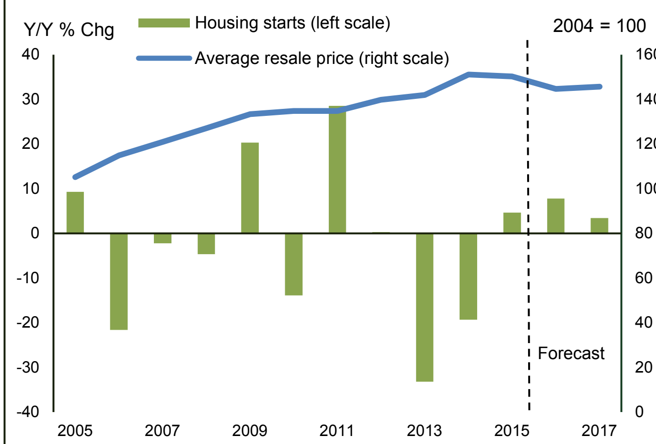
PRINCE EDWARD ISLAND - TD ECONOMICS' FORECASTS

Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	2.0	1.5	0.9	2.0	1.9
Nominal GDP	3.8	3.8	2.5	3.4	3.7
Employment	1.5	-0.1	-1.1	0.4	1.4
Unemployment rate (%)	11.6	10.6	10.4	10.6	9.7
Consumer Price Index	2.0	1.6	-0.6	1.7	2.7
Retail trade	0.8	3.3	2.5	4.0	3.0
Housing starts	-33.2	-19.3	4.9	7.6	3.4
Existing home sales	-11.8	-3.2	20.8	-4.6	2.4
Avg. existing home price	1.6	6.4	-0.6	1.4	1.2

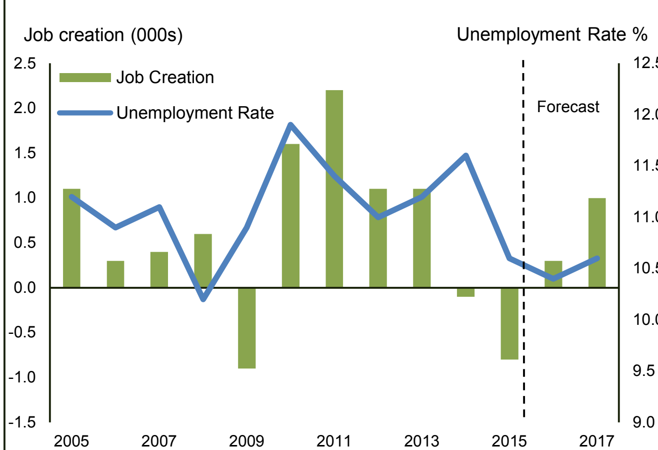
E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics

P.E.I.: HOUSING MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

PEI: LABOUR MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

NOVA SCOTIA

Rising demand for international exports combined with a stronger U.S. economy are seen as key underpinnings of Nova Scotia's robust economic performance. Economic growth should average 1.7% and 1.8% this year and next, respectively, a marked improvement over the 0.5% annual average seen over the last three years. Employment though will likely come in weaker, hampered by a lackluster hand-off.

After stalling last year, international merchandise export receipts should fare better over the next two years buoyed by a comparatively low Canadian dollar alongside resilient U.S. demand. Benefits will accrue most amongst manufacturers and in tourism related industries. Tire manufacturing, which accounts for one-fifth of provincial exports, expanded 8.6% in 2015. The industry should continue to do well, judging by strong auto sales numbers in the U.S., expected to rise to 17.9 million this year. Total Asia-bound merchandise exports represent roughly 13% of total exports and have expanded more rapidly than exports to any other destination. These trends should continue, supported by growing appetite for prepared seafood and shellfish. Moreover, the Port of Halifax looks to break records this year, welcoming 240,000 passengers, some 8% more than last year.

Domestic-focused manufacturing should also fare well in 2016. The Halifax shipyard will have its first full year of activity, constructing five to six Arctic Offshore Patrol Vessels. Total federal contracts, including a separate contract for battleships that lasts into the next decade, are worth a combined $30 billion. However, they are already spurring substantial investment in manufacturing capacity in Halifax.

Over the longer-run, Nova Scotia may benefit from more open access to European markets for its chemical and agricultural products on the back of the proposed Canadian-European Union Comprehensive Economic and Trade Agreement (CETA). The agreement would provide a more than 90% reduction of European Union (EU) tariffs on fish, seafood, agricultural products, wood products, and chemical & plastic products.

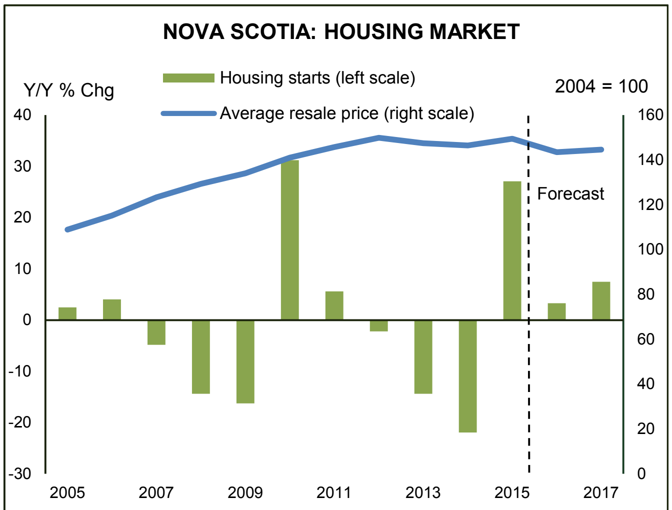
Natural gas production will remain a key weak spot this year. Prices are expected to be lower in 2016 than in 2015, on average, with the Sable Field progressing towards decommissioning. Moreover, the Deep Panuke natural gas field also shifted production to correspond with seasonal demand last year, curbing potential production increases.

NOVA SCOTIA - TD ECONOMICS' FORECASTS

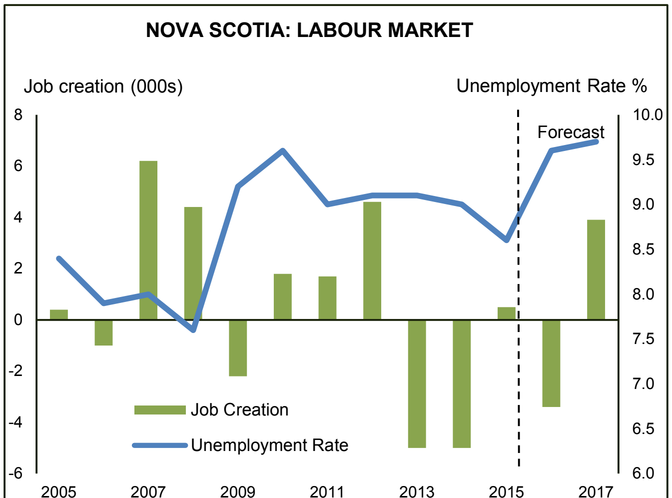
Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	0.0	0.6	1.0	1.7	1.8
Nominal GDP	2.0	1.3	2.4	3.5	3.8
Employment	-1.1	-1.1	0.1	-0.7	0.9
Unemployment rate (%)	9.1	9.0	8.6	9.6	9.7
Consumer Price Index	1.2	1.7	0.4	1.7	2.5
Retail trade	2.9	2.3	0.1	2.9	2.9
Housing starts	-14.4	-22.0	27.2	-4.5	10.8
Existing home sales	-12.3	-2.3	2.8	3.2	2.0
Avg. existing home price	-1.6	-0.7	2.1	-4.1	1.0

E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics



Source: Haver Analytics. Forecast by TD Economics as of April 2016



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

NEW BRUNSWICK

With more than 90% of the province's goods exports bound south of the border, the province should be able to capitalize on a continuing U.S. recovery. Together with a low Canadian dollar, resilient U.S. demand for provincial goods - notably lumber, food, and paper - and higher tourism activity, exports should take the driver's seat this year and next. However, we anticipate real GDP growth will stay contained at around 1.0% in 2016, before edging up to 1.2% in 2017 given some ongoing as well as recent headwinds.

A rise in U.S. housing starts and a 2014 increase in the allowable cut of Crown softwood are expected to spur higher forest sector activity this year and next. This should augment last year's 6.3% rise in wood product manufacturing. The provincial economy will also benefit from the ongoing pulp mill upgrades ($336 million in 2016) in Saint John, and extending through 2017.

The province's own housing market may also provide a helping hand. Weak economic, employment and population growth has hurt housing demand in recent years, but the real estate market appears to have stabilized recently. Construction is expected to improve marginally in 2016 and 2017, adding slightly to GDP. Still, New Brunswick's demographic challenges will keep a lid on housing demand and prices over the longer-run.

The province will also benefit from a start-up of the Caribou zinc mine. Closures of zinc mines in Australia and Ireland in the second half of 2015 have cut global supply by almost 5%. This should support zinc prices over the forecast period, providing some upside potential as ramp up occurs at the Caribou site.

The Caribou site may offer some offset to the mining industry following the decision of a major potash mine in Picadilly to suspend production this year as low prices took a toll on the project's feasibility. The mine will shed 400 jobs, and will directly reduce economic activity by 0.2% this year. Indirect effects will also spill over into activity in the following year. As well, an increase in the provincial portion of the HST from 8% to 10% will negatively impact disposable income, and spill over into consumer spending.

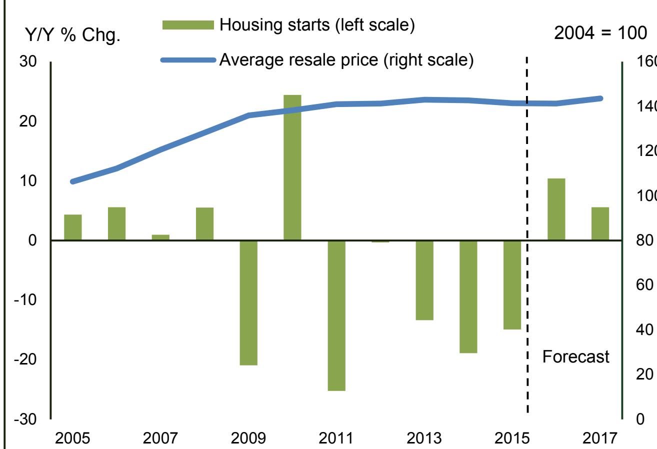
Along with spillover effects, the mine closure will weigh on employment growth this year, before job creation stabilizes in 2017. As a result, the unemployment rate is expected climb to 10.0%, before retreating to 9.8% next year.

NEW BRUNSWICK - TD ECONOMICS' FORECASTS
Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	0.4	-0.3	0.6	1.0	1.2
Nominal GDP	0.4	0.6	2.3	2.5	3.5
Employment	0.4	-0.2	-0.4	-1.0	0.6
Unemployment rate (%)	10.3	9.9	9.8	10.0	9.8
Consumer Price Index	0.8	1.5	0.5	2.3	2.4
Retail trade	0.7	3.8	3.2	2.7	2.2
Housing starts	-13.4	-18.9	-15.0	10.0	4.2
Existing home sales	-1.9	-0.1	6.5	8.1	-0.4
Avg. existing home price	1.3	-0.2	-0.9	1.5	1.4

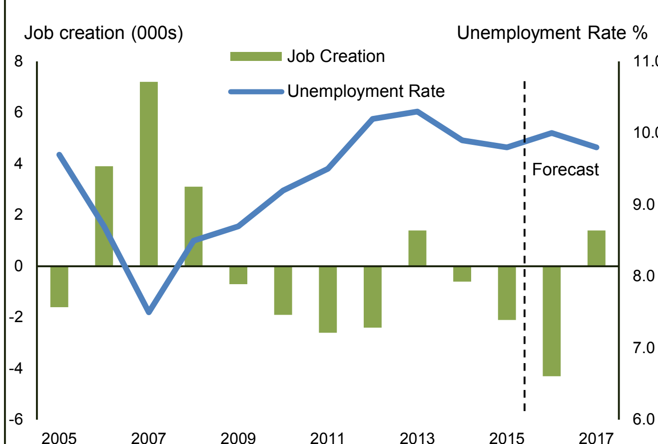
E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics

NEW BRUNSWICK: HOUSING MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

NEW BRUNSWICK: LABOUR MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

QUÉBEC

Following what had been a disappointing year all around, the Québec manufacturing sector appeared to turn a corner at the end of 2015. A record level of unfilled orders bodes well for sustained momentum in the near term. Production in the aerospace, other transportation products, and forestry products are anticipated to lead growth in both 2016 and 2017, helped by a lower Canadian dollar and stronger U.S. economy. Overall, exports, manufacturing shipments, and job creation are expected to outperform the national average. As such, we've upgraded Québec's economic growth forecast for 2016 to 2.1%, a significant 0.4 percentage point improvement relative to our January forecast.

Healthy activity will underscore brisk job creation within the export-oriented industries of manufacturing and transportation services. These will be a source of strength this year, setting the stage for a respectable gain in overall employment of just under 1%. The unemployment rate is likely to remain quite stable at around 7.7% on average this year, before dropping to 7.5% in 2017.

Hiring demand has been weaker in the public sector, as the provincial government constrained expenditures to address its budget deficit, focusing on debt-repayment goals. But, with the Québec government announcing a return to surplus in its recent 2016 budget, public sector restraint is poised to ease. Moreover, increased federal spending over the coming years is likely to provide a boost to both growth and employment.

Supported by modestly rising employment and incomes, household spending is expected to continue to make a steady yet modest contribution to growth over the forecast period. Within the provincial housing market, resale activity has been gradually gaining strength in response to low interest rates and gradually improving economic prospects. This year, sales volumes are expected to rise at a relatively healthy 4.6% edging closer to their pre-recession peak. Relatively elevated inventories of homes will keep average resale price growth and homebuilding activity more muted, but these are also expected to record improved performance in 2017.

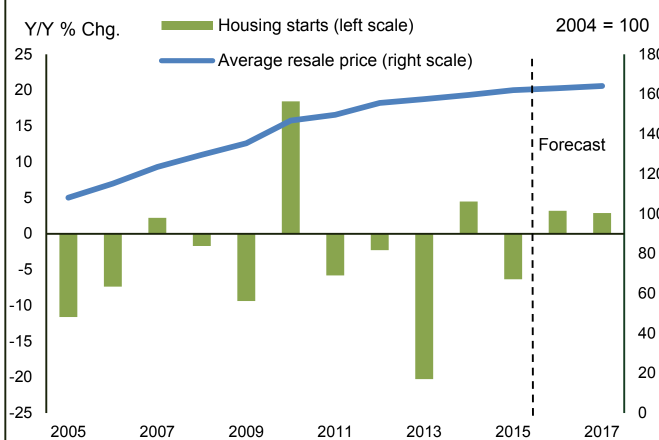
QUÉBEC - TD ECONOMICS' FORECASTS

Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	1.2	1.5	1.1	2.1	2.1
Nominal GDP	2.0	2.5	1.6	4.1	4.3
Employment	1.4	0.0	1.0	0.8	0.9
Unemployment rate (%)	7.6	7.7	7.7	7.7	7.5
Consumer Price Index	0.8	1.4	1.1	1.3	2.0
Retail trade	2.5	1.7	1.0	3.5	3.5
Housing starts	-20.3	4.5	-6.3	3.1	2.9
Existing home sales	-8.0	-0.8	5.0	4.6	0.5
Avg. existing home price	1.2	1.4	1.5	0.4	0.8

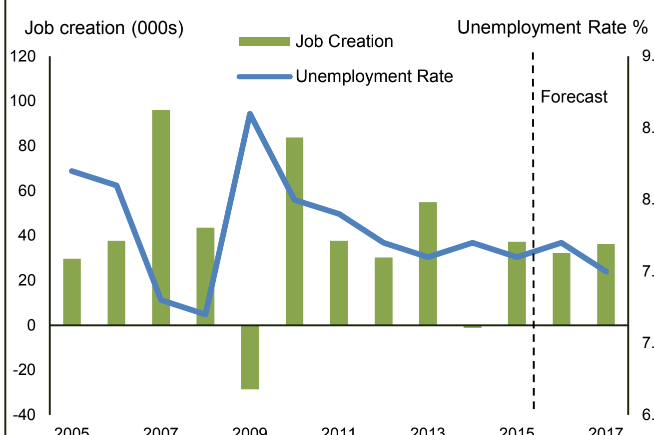
E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics

QUÉBEC: HOUSING MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

QUÉBEC: LABOUR MARKET



Source: Haver Analytics. Forecast by TD Economics as April 2016.

ONTARIO

The long awaited export-led recovery appears to be finally materializing in Ontario. After some transitory set-backs early last year, including a harsh winter and plant retooling, exports have surged nearly 20% y/y in January, finally exceeding their peak prior to the Great Recession. They were helped along by robust U.S. demand and a lower dollar. Demand has been particularly strong for Ontario's motor vehicles and parts with U.S. auto sales topping 18 million annualized units in late-2015.

The recent jump in auto manufacturing is likely overstated, as the strong y/y gain partly reflects a bounce back following a lengthy production shutdown in 2015H1. This will likely lead to a small increase in output this year; however, auto production in 2017 could see a significant drop, due to the scheduled shutdown of a plant. Moreover, while some new investment has been announced within the sector, the outlook for auto production post-2016 remains highly uncertain, as labour negotiations set to begin later this year will likely play a key role in automakers' production decisions. Auto parts production may provide some offset, as demand for new innovative products remains high.

Chemicals, machinery, electronics, and medical equipment manufacturers are also benefiting from robust demand south of the border. On the heels of some high-profile announcements from U.S. and global high-tech leaders, the GTA region is on track to benefit from significant new investment in its technology sector over the next few years. Commercial activity appears to have reached a peak but this is likely to be more than offset by increased government infrastructure spending. In particular, 2016 Ontario and federal budgets contained ambitious infrastructure plans, an important share of which will be allocated to the province to boost transit, social housing and green infrastructure.

The improving job market as well as low interest rates should continue to support the provincial housing markets. Housing starts in the province remain at elevated levels, having increased by 17.5% in 2015, with sales activity in the existing home market rising nearly 10% to 225,000 last year. We expect continued near-term strength before activity moderates somewhat in 2017.

All told, the Ontario economy looks on pace to grow by 2.9% in 2016, or 0.7 percentage points higher than we envisaged earlier this year. The improved outlook is related to a pickup in exports, which will continue to boost manufacturing activity in the province, as well as continued strength in domestic drivers. Growth will be well ahead of the national this year, with Ontario's performance second only to B.C.

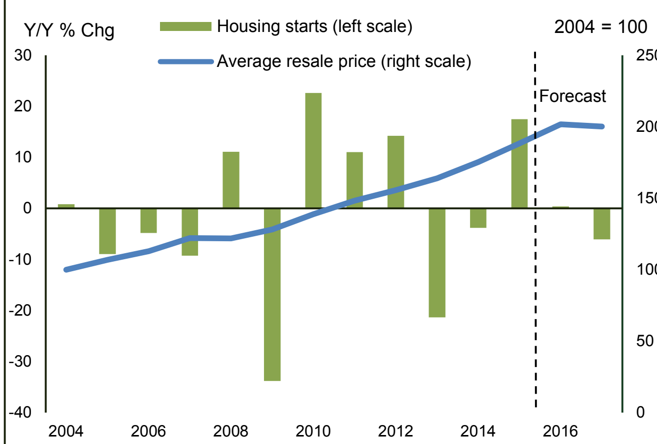
ONTARIO - TD ECONOMICS' FORECASTS

Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	1.3	2.7	2.6	2.9	2.4
Nominal GDP	1.9	4.1	3.7	4.7	4.7
Employment	1.8	0.8	0.7	1.0	0.7
Unemployment rate (%)	7.6	7.3	6.8	6.9	6.9
Consumer Price Index	1.1	2.3	1.2	2.0	2.3
Retail trade	2.3	5.0	4.6	4.8	3.2
Housing starts	-21.4	-3.8	17.5	0.4	-6.1
Existing home sales	0.5	3.9	9.5	-1.0	-5.5
Avg. existing home price	5.2	7.0	7.5	7.1	-0.8

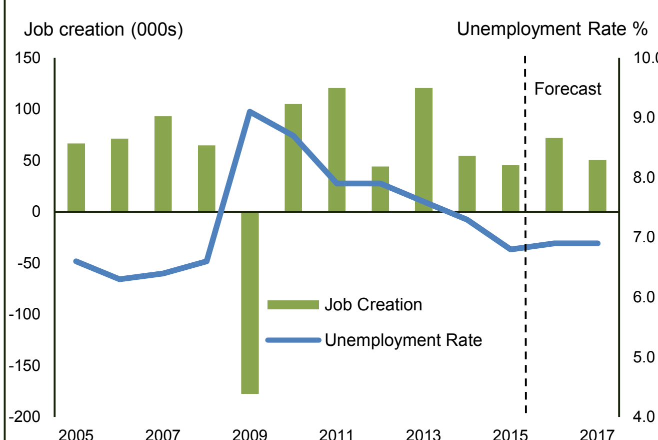
E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics

ONTARIO: HOUSING MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

ONTARIO: LABOUR MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

MANITOBA

Modest exposure to the energy sector and strong trade ties with other Prairie provinces stifled economic growth in Manitoba last year. Real GDP grew by just 1.3%, while weak job gains were outpaced by labour force growth, pushing the unemployment rate higher. The jobless rate exceeded 6% in February for the first time since 1997, although remains low by national standards.

There is hope on the horizon. Energy-related activity accounts for just 6% of economic output, or less than a quarter of the share in the rest of the Prairies. On the other hand, non-energy manufacturing accounts for 10%. Manufacturing shipments made an impressive turnaround since late last year, helped along by the falling loonie and resilient U.S. domestic demand. After staying away early in the year, consumers have increasingly headed to the malls. Retail sales have for several months now outpaced those in the rest of Canada with spending up on big-ticket items such as cars and furniture. Tourism, which is also benefiting from the lower Canadian dollar, is also playing a role in Manitoba's economic pick-up.

Improving economic prospects and low interest rate environment will likely help drive a modest revival in housing activity through most of 2016. Nonetheless, construction of new homes as well as home prices will be constrained by an elevated inventory of homes for sale. Supply of homes for sale has risen above 4 months' worth of sales, well above the 2.5 it averaged over the past decade, as homes built during the boom years between 2012 and 2014 are starting to come onto the market.

Alongside the moderate private-sector momentum to start 2016, a provincial election this year will likely temporarily boost economic growth through increased public sector activity. Overall, Manitoba's economy is expected to grow by 2.3% in 2016, before the pace edges back to a still hearty 2% next year – making it the best performing Prairie province.

Even with the better economic growth prospects this year, the job picture may remain weak with the unemployment rate edging slightly higher. This outlook partly reflects some payback for last year's outsized gain of 1.5% in job creation, which outpaced economic growth.

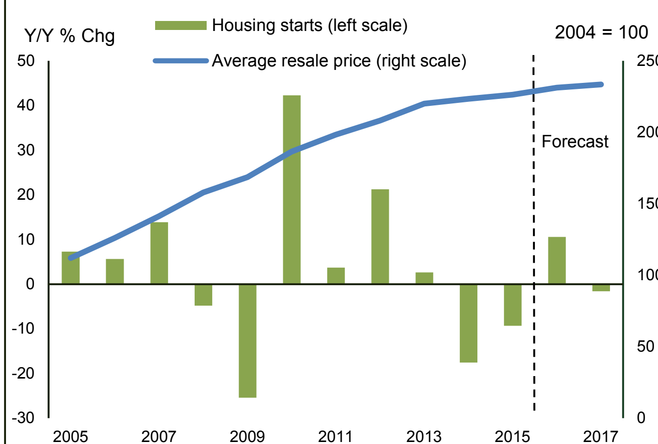
MANITOBA - TD ECONOMICS' FORECASTS

Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	2.4	2.3	1.3	2.3	2.1
Nominal GDP	3.5	3.5	3.1	4.3	4.4
Employment	0.7	0.1	1.5	-0.8	0.8
Unemployment rate (%)	5.4	5.4	5.6	5.9	5.4
Consumer Price Index	2.3	1.8	1.2	1.7	2.3
Retail trade	3.9	4.3	1.4	3.3	2.9
Housing starts	2.6	-17.6	-9.5	10.9	-1.6
Existing home sales	-1.2	0.3	1.7	3.5	0.9
Avg. existing home price	5.7	1.5	1.3	2.2	1.3

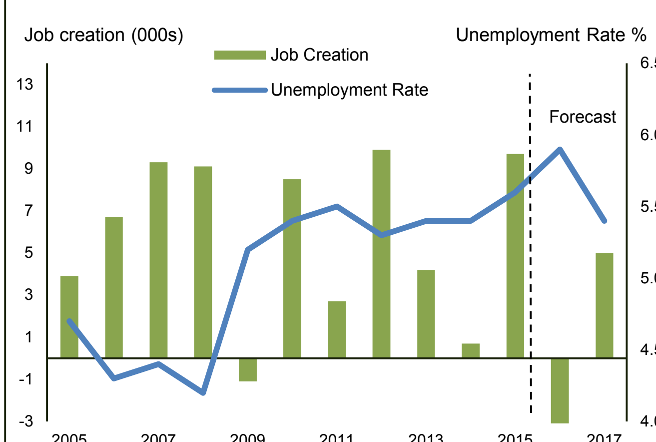
E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics

MANITOBA: HOUSING MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

MANITOBA: LABOUR MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

SASKATCHEWAN

The combination of drought and a broad-based slump in commodity prices pushed the Saskatchewan economy into recession last year. Strong ties to the energy sector will prevent a more meaningful recovery, keeping provincial economic growth sub-1% on average between 2016 and 2017.

The weakness in the resource sector has spread into the provincial manufacturing sector to a greater degree than was expected, accounting for the bulk of the downward revision to TD Economic's outlook for real GDP growth in 2016. As of January of this year, manufacturing sales were 15% lower than the peak reached in April 2014. The sector has shed almost 5,000 jobs, accounting for half the recent job losses in the economy. The unemployment rate rose to 5.9% in February, or just a tick below its 2008/09 recessionary peak.

The broadening out of weakness across industries towards the end of last year suggests greater knock-on effects to domestic demand within the economy may be in store for 2016. Retail spending fell by a record 2.8% last year and is only gradually stabilizing. At the same time, following what has been a decade-long run-up in home prices, home values have become more sensitive to economic shocks. Saskatchewan is home to two of the most overbuilt major urban areas – Regina and Saskatoon. Building slack in the housing market manifested in a near doubling in rental vacancy rates last year. It also helped lead average existing home prices down almost 4% year-over-year in February. More weakness is expected, with prices likely to fall another 8% peak-to-trough by the time the year is up, before stabilizing in 2017.

The downward revision in Saskatchewan's economic outlook, however, does not wipe out the province's grwoth advantage vis-à-vis other oil-producing provinces. The province has been diversifying away from its energy dependence since the late 1990s, and is now more known for its potash, agriculture and natural gas production. Activity in these sectors are expected to lead a recovery in 2016. Indeed, Potash Corporation virtually shut down a mine in New Brunswick, moving much of the activity to Saskatchewan this year, where the operation is more competitive. Agriculture production should also pick up following last year's drought, but a relatively warm and dry winter suggests that crop conditions could be suboptimal once again this year.

The election in Saskatchewan this year may offer a boost to public sector activity, but elevated fiscal deficits would cap the degree of stimulus that is likely to flow through.

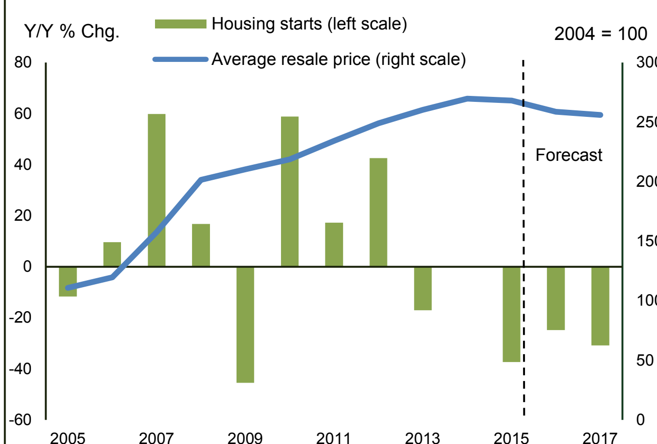
SASKATCHEWAN - TD ECONOMICS' FORECASTS

Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	5.8	1.9	-0.9	0.4	1.5
Nominal GDP	7.1	-0.9	-2.9	-0.3	4.1
Employment	3.1	1.0	0.6	-1.1	1.3
Unemployment rate (%)	4.1	3.8	5.0	5.8	5.0
Consumer Price Index	1.4	2.4	1.6	1.5	1.8
Retail trade	5.1	4.6	-2.9	2.7	2.4
Housing starts	-17.1	0.2	-37.3	-24.8	-30.8
Existing home sales	-2.4	2.4	-10.8	-3.2	-0.5
Avg. existing home price	4.5	3.6	-0.6	-2.4	-1.1

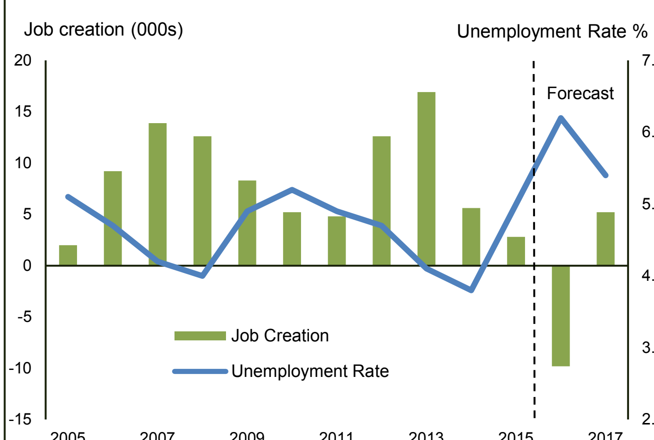
E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics

SASKATCEHWAN: HOUSING MAREKT



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

SASKATCHEWAN: LABOUR MARKET



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

ALBERTA

The Alberta economy is facing an income shock similar to that of the 1986 oil price crash. Nominal GDP is on track for a combined contraction of over 14% during the 2015-16 period. Real GDP is estimated to have fallen 1.6% last year, and the momentum so far in 2016 points to another annual decline of 1.0%. This marks a considerable underperformance vis-a-vis the rest of the country.

Corporate profits are on track to decline by almost half over 2015-16. This, alongside a muted futures price profile for crude oil is causing businesses to slash investment and cut jobs. The private sector has so far shed 75k jobs – three quarters of which have been in energy-related industries. Sharp losses led the unemployment rate higher. The jobless rate has already reached 7.9% in February and may very well rise by another half-point by mid-year, before rising out migration trends weigh on labour force growth later this year. This year will be the first in over two decades that Alberta's unemployment rate will exceed the national average.

While job losses thus far were concentrated in the energy-sector, it will be second round effects that will take centre stage this year. Job losses are likely to mount across industries that depend on investment and related activities in the energy sector – such as construction and finance and insurance. Meanwhile, rising unemployment will accelerate the housing market correction, putting additional stress on already highly-indebted households. Furthermore, reversing migration flows, while putting a ceiling on the jobless rate, will also weigh on domestic spending. The outflow of people to other provinces in search of better employment prospects could reach 20,000 in the coming year. Even after excluding gasoline, retail sales were already 4% lower year-over-year in December while housing starts are nearly half of what they were a year ago, with more weakness likely ahead.

Just as in the rest of Canada, currency sensitive sectors will benefit from a low Canadian dollar and strong momentum in the U.S. economy. Tourism is one example. Parks Canada noted that Banff National Park visits hit a record level in 2015. However, these sectors account for a relatively small share of overall economic activity to meaningfully offset the negative hit from the commodity price slump.

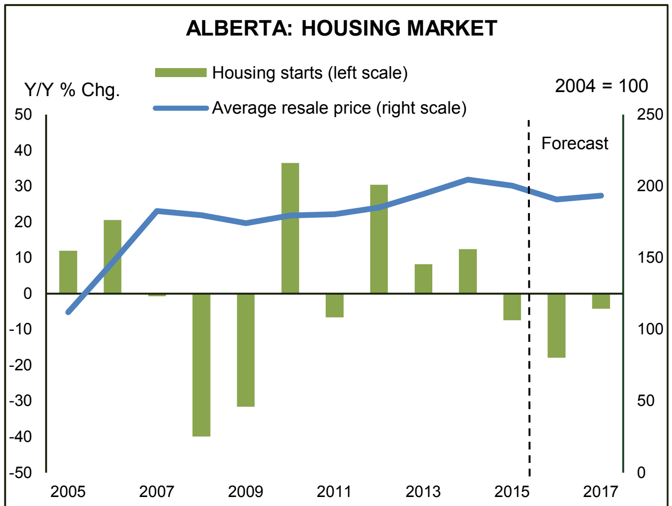
Oil prices appear to have bottomed in early-February and are expected to gradually grind higher. They may reach US $50 by year end and US $60 by the end of 2017. Should this forecast materialize, it would help stabilize activity in the oil and gas sector later this year, and potentially set the ground for a slow recovery beginning in 2017.

ALBERTA - TD ECONOMICS' FORECASTS

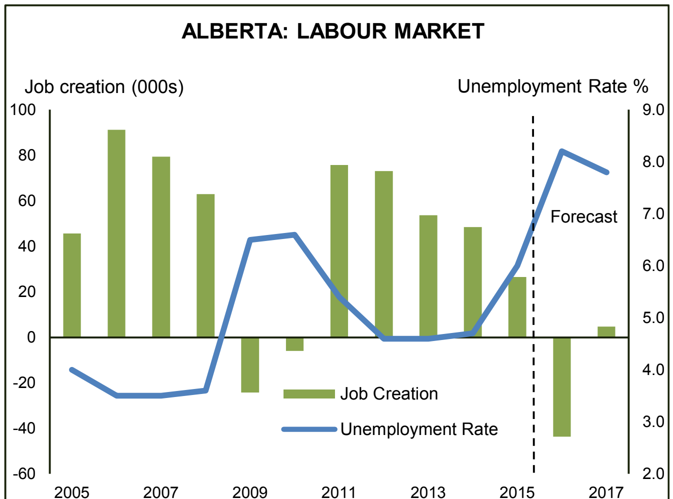
Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	5.1	4.8	-1.6	-1.0	1.3
Nominal GDP	10.2	9.1	-8.2	-5.1	3.7
Employment	2.5	2.2	1.2	-1.9	0.2
Unemployment rate (%)	4.6	4.7	6.0	8.2	7.8
Consumer Price Index	1.4	2.6	1.2	1.4	1.7
Retail trade	6.9	7.5	-3.7	-4.1	1.5
Housing starts	8.2	12.4	-7.4	-17.9	-10.7
Existing home sales	9.5	8.6	-21.3	-21.0	0.8
Avg. existing home price	5.0	5.2	-2.1	-4.8	1.3

E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics



Source: Haver Analytics. Forecast by TD Economics as of April 2016.



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

BRITISH COLUMBIA

British Columbia is expected to sit at the top of the economic growth charts in both 2016 and 2017. The low Canadian dollar and solid U.S. growth has attracted people from far and wide, helping to support B.C.'s housing market and retail sector.

The number of foreigners visiting B.C. has risen 21% since the currency started to fall in mid-2013. Meanwhile, net interprovincial migration reached a decade high in Q4 2015, as those leaving Alberta and Saskatchewan in search of greener employment pastures have moved further west. The effects on the economy have definitely been felt, with rising retail sales (up 9% year-over-year in January) and surging housing activity. Average home prices were up a stunning 22% y/y in February and new home builders started 2016 off at record high levels.

Once you strip away these domestic demand drivers, economic growth appears more modest. Trade data for B.C. have been more of a mixed bag. Non-energy exports were up 10% y/y in January, driven by double-digit gains in currency sensitive items. But, overall manufacturing shipments have stayed relatively flat, as B.C. was not left unscathed from the broad decline in commodity prices. Energy product exports made up a quarter of provincial merchandise shipments prior to the commodity crash, with B.C. accounting for one-fifth of Canada's natural gas exports.

The good news is that the housing market will likely remain a key contributor to the B.C. economy through most of 2016, with mortgage interest costs remaining near record low levels. The depreciation in the Canadian dollar braodly across many currencies has put B.C. home prices at a discount in U.S. dollar terms, which will continue to attract foreign investors. In addition, the B.C. government removed the land transfer tax on new homes worth less than $750,000, a policy that may shift housing demand into the new housing market, contributing to a rebound in new home construction this year. We are still betting on a market slowdown due to deteriorating affordability and rising interest rates, but it will likely be a 2017 story.

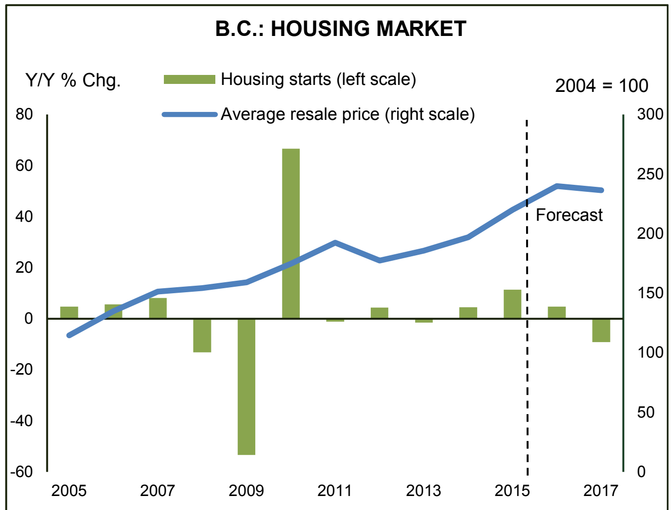
Overall, real GDP growth in B.C. is expected to come in at near-3% this year, broadly driven by increased domestic spending. However, economic growth should decelerate to a softer 2.5% next year as housing activity moves back to more sustainable levels and a gradually rising currency tempers tourism activity. The economy will likely continue to create jobs at a decent pace, but a sharply rising supply of labour will likely keep the unemployment rate relatively lofty.

BRITISH COLUMBIA - TD ECONOMICS' FORECASTS

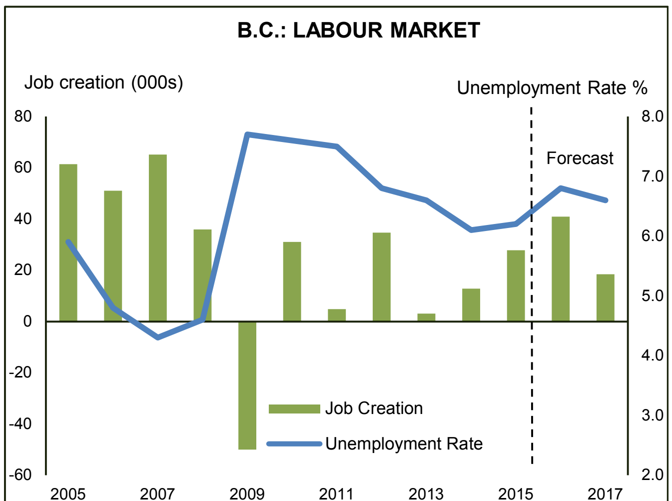
Annual average per cent change unless noted

	2013	2014	2015E	2016F	2017F
Real GDP	2.1	3.2	2.4	3.0	2.5
Nominal GDP	2.3	4.7	4.0	4.9	4.7
Employment	0.1	0.6	1.3	1.7	0.8
Unemployment rate (%)	6.6	6.1	6.2	6.8	6.6
Consumer Price Index	-0.1	1.0	1.1	1.9	2.3
Retail trade	2.4	5.6	6.7	6.9	3.2
Housing starts	-1.5	4.5	11.3	-1.5	-10.6
Existing home sales	7.8	15.2	22.0	2.4	-12.3
Avg. existing home price	4.8	6.1	11.7	9.1	-0.9

E, F: Estimate, Forecast by TD Economics as of April 2016.
Source: Statistics Canada / Haver Analytics



Source: Haver Analytics. Forecast by TD Economics as of April 2016.



Source: Haver Analytics. Forecast by TD Economics as of April 2016.

SUMMARY TABLES

REAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change					
	2013	2014	2015E	2016F	2017F
CANADA	1.9	2.6	1.2	1.9	2.0
N. & L.	5.8	-2.0	-2.1	-1.0	1.1
P.E.I.	2.0	1.5	0.9	2.0	1.9
N.S.	0.0	0.6	1.0	1.7	1.8
N.B.	0.4	-0.3	0.6	1.0	1.2
Québec	1.2	1.5	1.1	2.1	2.1
Ontario	1.3	2.7	2.6	2.9	2.4
Manitoba	2.4	2.3	1.3	2.3	2.1
Sask.	5.8	1.9	-0.9	0.4	1.5
Alberta	5.1	4.8	-1.6	-1.0	1.3
B.C.	2.1	3.2	2.4	3.0	2.5

E\|F: Forecast by TD Economics as at April 2016.
Source: Statistics Canada / Haver Analytics

NOMINAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change					
	2013	2014	2015E	2016F	2017F
CANADA	3.8	4.3	0.6	2.6	4.3
N. & L.	9.2	-4.2	-6.0	-2.1	3.1
P.E.I.	3.8	3.8	2.5	3.4	3.7
N.S.	2.0	1.3	2.4	3.5	3.8
N.B.	0.4	0.6	2.3	2.5	3.5
Québec	2.0	2.5	1.6	4.1	4.3
Ontario	1.9	4.1	3.7	4.7	4.7
Manitoba	3.5	3.5	3.1	4.3	4.4
Sask.	7.1	-0.9	-2.9	-0.3	4.1
Alberta	10.2	9.1	-8.2	-5.1	3.7
B.C.	2.3	4.7	4.0	4.9	4.7

E\|F: Forecast by TD Economics as at April 2016.
Source: Statistics Canada / Haver Analytics

EMPLOYMENT Annual average per cent change					
	2013	2014	2015	2016F	2017F
CANADA	1.5	0.6	0.9	0.4	0.7
N. & L.	0.8	-1.7	-1.0	-1.7	0.0
P.E.I.	1.5	-0.1	-1.1	0.4	1.4
N.S.	-1.1	-1.1	0.1	-0.7	0.9
N.B.	0.4	-0.2	-0.4	-1.0	0.6
Québec	1.4	0.0	1.0	0.8	0.9
Ontario	1.8	0.8	0.7	1.0	0.7
Manitoba	0.7	0.1	1.5	-0.8	0.8
Sask.	3.1	1.0	0.6	-1.1	1.3
Alberta	2.5	2.2	1.2	-1.9	0.2
B.C.	0.1	0.6	1.3	1.7	0.8

E\|F: Forecast by TD Economics as at April 2016.
Source: Statistics Canada / Haver Analytics

UNEMPLOYMENT RATE Annual, per cent					
	2013	2014	2015	2016F	2017F
CANADA	7.1	6.9	6.9	7.4	7.3
N. & L.	11.6	11.9	12.9	14.0	13.7
P.E.I.	11.6	10.6	10.4	10.6	9.7
N.S.	9.1	9.0	8.6	9.6	9.7
N.B.	10.3	9.9	9.8	10.0	9.8
Québec	7.6	7.7	7.7	7.7	7.5
Ontario	7.6	7.3	6.8	6.9	6.9
Manitoba	5.4	5.4	5.6	5.9	5.4
Sask.	4.1	3.8	5.0	5.8	5.0
Alberta	4.6	4.7	6.0	8.2	7.8
B.C.	6.6	6.1	6.2	6.8	6.6

E\|F: Forecast by TD Economics as at April 2016.
Source: Statistics Canada / Haver Analytics

CONSUMER PRICE INDEX (CPI) Annual average per cent change					
	2013	2014	2015	2016F	2017F
CANADA	0.9	1.9	1.1	1.8	2.2
N. & L.	1.7	1.9	0.4	1.6	1.9
P.E.I.	2.0	1.6	-0.6	1.7	2.7
N.S.	1.2	1.7	0.4	1.7	2.5
N.B.	0.8	1.5	0.5	2.3	2.4
Québec	0.8	1.4	1.1	1.3	2.0
Ontario	1.1	2.3	1.2	2.0	2.3
Manitoba	2.3	1.8	1.2	1.7	2.3
Sask.	1.4	2.4	1.6	1.5	1.8
Alberta	1.4	2.6	1.2	1.4	1.7
B.C.	-0.1	1.0	1.1	1.9	2.3

E\|F: Forecast by TD Economics as at April 2016.
Source: Statistics Canada / Haver Analytics

RETAIL TRADE Annual average per cent change					
	2013	2014	2015	2016F	2017F
CANADA	3.2	4.6	2.2	3.3	2.9
N. & L.	5.0	3.4	0.4	1.1	0.9
P.E.I.	0.8	3.3	2.5	4.0	3.0
N.S.	2.9	2.3	0.1	2.9	2.9
N.B.	0.7	3.8	3.2	2.7	2.2
Québec	2.5	1.7	1.0	3.5	3.5
Ontario	2.3	5.0	4.6	4.8	3.2
Manitoba	3.9	4.3	1.4	3.3	2.9
Sask.	5.1	4.6	-2.9	2.7	2.4
Alberta	6.9	7.5	-3.7	-4.1	1.5
B.C.	2.4	5.6	6.7	6.9	3.2

E\|F: Forecast by TD Economics as at April 2016.
Source: Statistics Canada / Haver Analytics

HOUSING STARTS Thousands of units	2013	2014	2015	2016F	2017F
CANADA	187.9	189.2	193.6	189.2	180.9
N. & L.	2.9	2.2	1.8	1.5	1.4
P.E.I.	0.6	0.5	0.5	0.6	0.6
N.S.	3.9	3.0	3.9	4.0	4.3
N.B.	2.8	2.3	1.9	2.2	2.3
Québec	37.6	39.3	36.8	38.0	39.1
Ontario	60.9	58.6	68.8	69.1	64.9
Manitoba	7.5	6.2	5.6	6.2	6.1
Sask.	8.3	8.3	5.2	3.9	2.7
Alberta	36.1	40.5	37.5	30.8	29.5
B.C.	27.1	28.3	31.5	33.0	30.0

F: Forecast by TD Economics as at April 2016.
Source: CMHC / Haver Analytics

HOUSING STARTS Per cent change	2013	2014	2015	2016F	2017F
CANADA	-12.5	0.7	2.3	-2.3	-4.4
N. & L.	-26.3	-23.6	-18.8	-15.5	-6.7
P.E.I.	-33.2	-19.3	4.6	7.9	3.4
N.S.	-14.4	-22.0	27.1	3.3	7.5
N.B.	-13.4	-18.9	-15.0	10.4	5.6
Québec	-20.3	4.5	-6.4	3.2	2.9
Ontario	-21.4	-3.8	17.5	0.4	-6.1
Manitoba	2.6	-17.6	-9.3	10.6	-1.6
Sask.	-17.1	0.2	-37.4	-24.8	-30.8
Alberta	8.2	12.4	-7.4	-17.9	-4.2
B.C.	-1.5	4.5	11.4	4.7	-9.1

F: Forecast by TD Economics as at April 2016.
Source: CMHC / Haver Analytics

EXISTING HOME SALES Thousands of units	2013	2014	2015	2016F	2017F
CANADA	456.5	479.9	504.2	497.4	473.4
N. & L.	4.3	4.1	4.3	3.9	3.9
P.E.I.	1.4	1.4	1.7	1.8	1.8
N.S.	9.1	8.9	9.2	9.5	9.7
N.B.	6.3	6.3	6.7	7.1	7.2
Québec	71.2	70.6	74.2	77.5	78.0
Ontario	197.4	205.0	224.6	222.2	210.0
Manitoba	13.7	13.8	14.0	15.2	15.4
Sask.	13.5	13.9	12.4	11.5	11.5
Alberta	66.1	71.8	56.5	44.6	45.0
B.C.	72.9	84.0	102.5	104.1	90.9

F: Forecast by TD Economics as at April 2016.
Source: Canadian Real Estate Association

EXISTING HOME SALES Per cent change	2013	2014	2015	2016F	2017F
CANADA	0.7	5.1	5.1	-1.3	-4.8
N. & L.	-7.5	-4.7	3.7	-9.2	1.4
P.E.I.	-11.8	-3.2	20.8	5.8	3.4
N.S.	-12.3	-2.3	2.8	3.6	2.1
N.B.	-1.9	-0.1	6.5	6.3	1.6
Québec	-8.0	-0.8	5.0	4.4	0.7
Ontario	0.5	3.9	9.5	-1.0	-5.5
Manitoba	-1.2	0.3	1.7	8.6	1.4
Sask.	-2.4	2.4	-10.8	-6.7	-0.8
Alberta	9.5	8.6	-21.3	-21.0	0.8
B.C.	7.8	15.2	22.0	1.6	-12.7

F: Forecast by TD Economics as at April 2016.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE Thousands of C$	2013	2014	2015	2016F	2017F
CANADA	381.7	407.0	436.6	461.2	450.7
N. & L.	283.7	284.3	276.3	263.0	263.3
P.E.I.	155.1	165.1	164.1	158.1	159.2
N.S.	214.8	213.2	217.8	209.1	210.5
N.B.	161.4	161.1	159.5	159.4	162.0
Québec	267.7	271.4	275.4	277.2	278.9
Ontario	401.5	429.5	461.5	494.2	490.3
Manitoba	260.7	264.7	268.1	273.9	276.7
Sask.	287.5	298.0	296.1	285.7	282.7
Alberta	380.2	399.8	391.4	372.8	377.8
B.C.	537.6	570.2	637.0	694.4	684.0

F: Forecast by TD Economics as at April 2016.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE Per cent change	2013	2014	2015	2016F	2017F
CANADA	5.6	6.6	7.3	5.6	-2.3
N. & L.	5.4	0.2	-2.8	-4.8	0.1
P.E.I.	1.6	6.4	-0.6	-3.7	0.7
N.S.	-1.6	-0.7	2.1	-4.0	0.7
N.B.	1.3	-0.2	-0.9	-0.1	1.6
Québec	1.2	1.4	1.5	0.6	0.6
Ontario	5.2	7.0	7.5	7.1	-0.8
Manitoba	5.7	1.5	1.3	2.1	1.0
Sask.	4.5	3.6	-0.6	-3.5	-1.1
Alberta	5.0	5.2	-2.1	-4.8	1.3
B.C.	4.8	6.1	11.7	9.0	-1.5

F: Forecast by TD Economics as at April 2016.
Source: Canadian Real Estate Association