PROVINCIAL ECONOMIC FORECAST

TD Economics

March 27, 2017

ECONOMIC PROSPECTS BRIGHTEN FOR MOST PROVINCES

Highlights

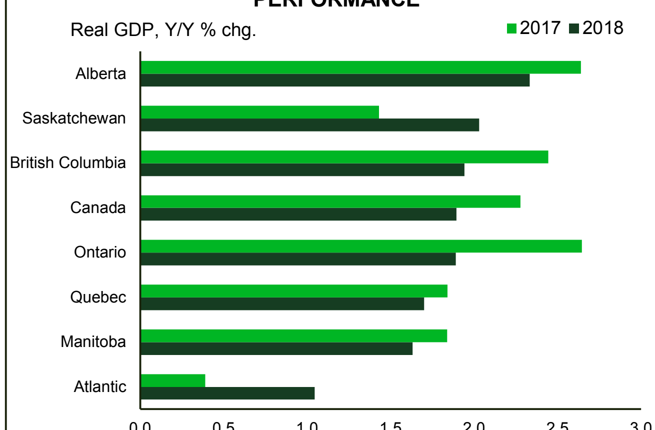
- Since our last Provincial Economic Forecast (PEF) in December, economic prospects have brightened, driving us to upgrade our 2017 growth outlook for nearly all provincial economies. Ontario, B.C. and Alberta received the most significant lift.
- In these regions, a key part of the improved growth story relates to housing, with a strong handoff from 2016 driving up residential construction.
- Despite the generally more upbeat view, the overall theme of convergence in provincial growth rates remains intact. Indeed, by 2018, Alberta and Saskatchewan should sit at the top of the leaderboard, while B.C. and Ontario decelerate from their robust above-trend pace to just under 2%.

Since our last Provincial Economic Forecast (PEF) in December, economic prospects have taken a notable upturn. Confidence barometers have strengthened across most parts of the country, and recent data show that this increased optimism has been feeding through to a faster pace of spending and hiring. Accordingly, we have upgraded our 2017 growth outlook for nearly all provincial economies by as much as 0.5 percentage points, with Ontario, B.C. and Alberta enjoying the most significant lift.

A key part of the better growth story relates to housing. In Ontario, new and resale markets have kicked off the year with surprisingly strong momentum, setting the stage for a substantial upgrade in residential construction and retail-oriented activity. A better starting point for residential construction and resale markets was also instrumental in forecast upgrades to both Alberta and B.C. this year.

Despite the changes to the outlook, the overall theme embedded in recent editions of the PEF – one of a convergence in provincial growth rates – remains intact. A recovery in Alberta and Saskatchewan will propel them from the bottom of the leaderboard to the top by 2018, while Ontario and B.C. will likely decelerate from their robust above-trend pace toward just under the 2% mark next year. Newfoundland and Labrador will continue lag behind, but should return to slight expansion territory by 2018. The remaining provinces will hover somewhere in between, as they move toward their longer term pace of growth. The key risks to this outlook are also unchanged, with elevated home prices and household debt ratios a persistent concern in a number of parts of the country, while an uncertain U.S. trade and tax policy landscape tops the list of external risks to provincial economies.

CHART 1: REGIONAL ECONOMIC PERFORMANCE



Source: Statistics Canada, Forecast by TD Economics as at March 2017.

B.C. and Ontario housing markets diverging

B.C. and Ontario have had a lot in common over the past few years, with housing market activity the key driver of robust

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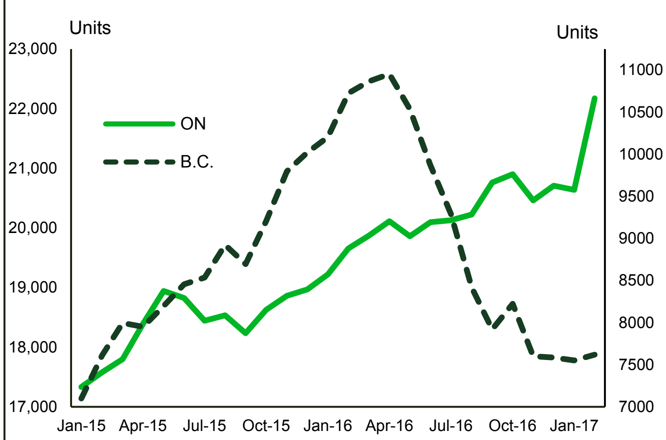
CHART 2: EXISTING HOME SALES



Source: CREA, TD Economics.

growth. As well, these two provinces (along with PEI) were the only ones to record an increase in exports last year. However, by mid-2016, the Ontario and B.C. resale housing markets had begun to move in opposite directions. In turn, this is likely to drive a wedge between their relative economic performances this year. Partly in response to the impact of the foreign buyer tax in Vancouver, B.C. home sales are down by nearly 30% y/y so far in 2017. While we expect sales in B.C. to stabilize later this year as the impact of the policy measures fade, the weaker trend level of housing will have negative knock-on effects to consumer-oriented areas such as retail. This moderate headwind won't be enough to derail economic growth, which is poised to run at the respectable rate of 2.4% this year due to solid underpinnings. Bucking the trend in resale activity, new home construction has gathered strength, while prices (on a quality-adjusted basis) remain resilient. Employment in B.C. is expected to hold strong this year, driven by the construction industry, and a few services industries including business, building and support services, education and healthcare. This will help keep consumer spending chugging along. Moreover, the manufacturing, forestry, tourism and information technology sectors are all expected to continue supporting growth.

In contrast, Ontario's housing market is still red hot and likely has further room to run. The market remains extremely tight – in the Toronto region especially, but also throughout most of the province – with a number of cities sitting well in seller's territory. In the near term, there appears to be little to slow the market meaningfully, leading us to upgrade our forecasts for home prices, building activity and service sector activity from our December projection. In 2018, a further deterioration in affordability and a steeper rise in longer-term market interest rates – which should impact less affordable regions such as Toronto more forcefully – is expected to take some steam out of the market. Prices are forecast to rise by a more sustainable single-digit pace at that stage. That said, given the current 20%+ pace of price growth, policy intervention cannot be ruled out, potentially taking some steam out of the market sooner. In any event, a more meaningful slowdown than embedded in our baseline forecast appears to be more of a risk for Ontario's growth performance in 2018.

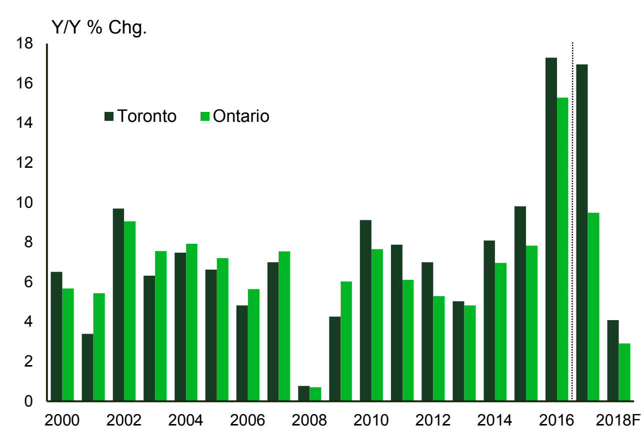
Previous and still-forthcoming home price gains should translate into a hearty pace of consumer spending this year, via spillover into service sector industries. Moreover, the housing boom has resulted in higher government revenues, with the province on track for a balanced budget in the upcoming 2017-18 fiscal year. As such, some uptick in public spending could be in the cards over the next two years.

The outlook for manufacturing – one of the province's key pillars – is more subdued, as output will be limited by the closure of a GM plant mid-year; however, on the whole, it is expected to improve relative to 2016 owing to a broad based uptick in other industries, including chemical, plastics and rubber, wood and machinery manufacturing. All told, overall growth is expected to come in at a robust 2.6% this year. Next year, a cooling in the housing market will drive economic growth down to just below 2%.

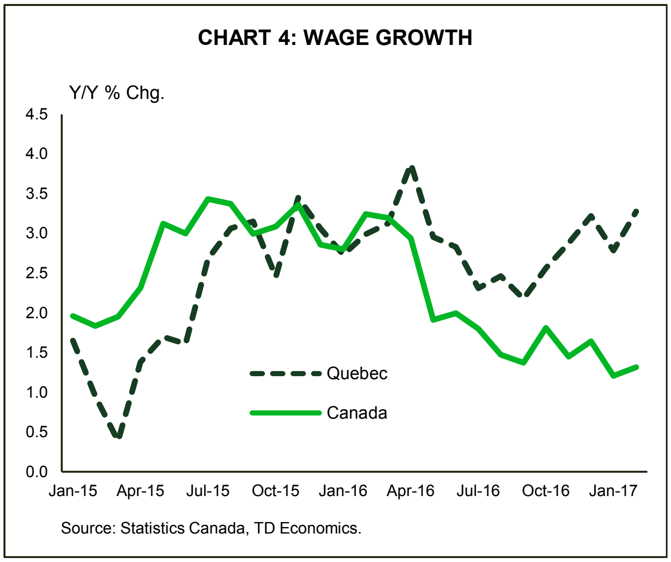
Manufacturing a bright spot for Quebec and Manitoba

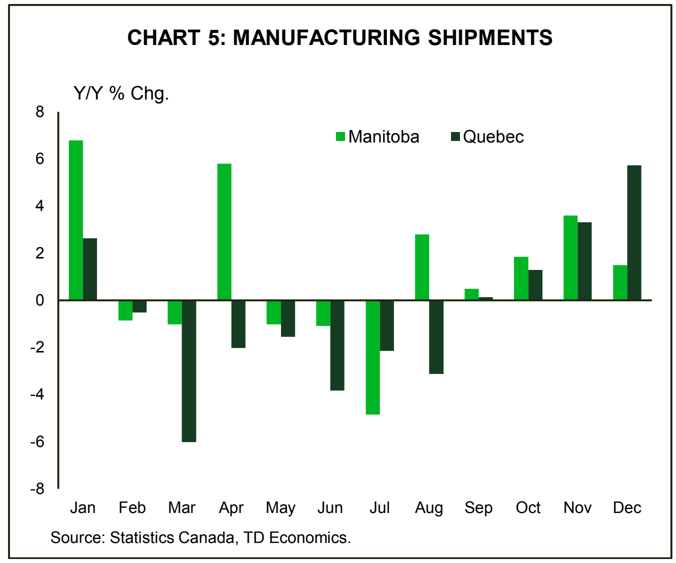
Quebec's economy has been picking up some momentum since the latter part of 2016, with manufacturing, wholesale and retail trade all showing strength in the fourth quarter.

CHART 3: TORONTO AND ONTARIO AVERAGE HOME PRICE GROWTH



Source: CREA, TD Economics.





Meanwhile, exports finally gained traction after a slow start last year, with growth recorded across a number of industries including metal and non-metallic mineral products and energy products. Going forward, manufacturing and exports should continue to be a key source of strength alongside healthy demand from the United States. Moreover, the job market remains strong – particularly within the services sector – with the unemployment rate in the province hovering near record lows. Wage growth in Quebec is sitting at just over 3% y/y – nearly three times the national average. All this speaks to a solid underpinning for consumer spending.

Housing construction will also bode well this year, with new home starts forecast to rise by nearly 7%, before reversing course in 2018. While the government has yet to table its budget for the upcoming fiscal year, it is widely anticipated that its sound fiscal position will allow for increased spending on public infrastructure. This would further prop up non-residential construction in the province. The government recently announced new tax incentives aimed at keeping businesses in the province. Such measures include increasing the tax deduction for capital gains to match that in the rest of the country and reducing the tax burden when transferring businesses to family members. Overall, Quebec's economic growth is expected to hold around current levels over the 2017-18 period.

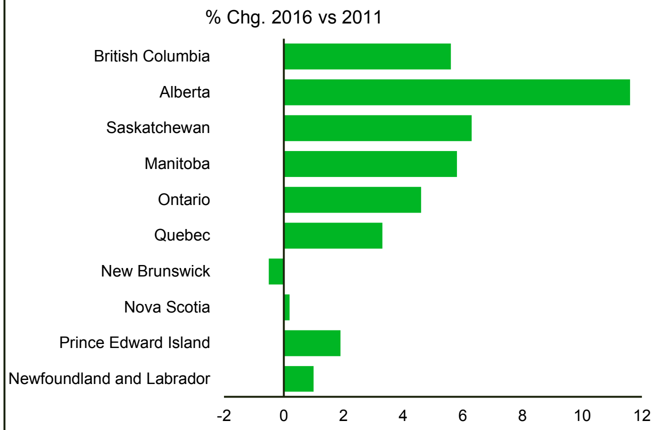
Manitoba's economy also picked up strength at the end of 2016, with manufacturing and exports recording sizable gains in the fourth quarter. These trends are expected to continue going forward, with industries related to the province's external sector underpinning growth. Ongoing strength in the food, wood products, machinery and transportation equipment sectors should help to prop up manufacturing activity. Residential construction will be supportive as well, with housing starts forecast to jump by over 20% this year. That said, capital spending intentions indicate lower non-residential investment will provide some offset.

In contrast to Quebec, public spending in Manitoba is likely to retreat this year as the government works to lower the deficit. More clarity on the government's plan will be provided in the upcoming budget, but the Finance Minister has signaled that the budget will include "difficult but necessary" decisions with respect to cost cutting. Moreover, major cost overruns tied to a Manitoba Hydro project could put upward pressure on hydro rates, reducing disposable income for households and weighing on consumer spending. Manitoba's economy is forecast to expand by 1.8% this year, before decelerating slightly to 1.6% in 2018, as it moves towards it longer run potential pace of growth.

Population growth to limit economic activity in Maritime Provinces

One of the key challenges facing the Maritime provincial economies is the aging population and lack of population growth overall. The latest census data confirmed that the Maritime Provinces had the weakest population performances in the country (Chart 6). New Brunswick was the sole province to record an outright decline during that time period, although the population did increase in 2016 due to an influx of Syrian refugees. The three-year Atlantic Immigration Pilot Project (effective in March 2017) should help support immigration in the region going forward, and could be one source to help mitigate the longer-term impact of the aging population on the economy. That said, population growth is still expected to remain relatively soft, limiting

CHART 6: POPULATION GROWTH



Source: Statistics Canada, TD Economics.

potential economic growth in the region.

There are, however, some bright spots. The tourism industry has benefited from the weak Canadian dollar, which has also helped to lift retail spending throughout the region. Employment picked up in the latter part of 2016 as well, and wage gains remain among the highest in the country. This momentum should continue going forward, supporting economic growth in these provinces.

In New Brunswick, non-residential construction is expected to strengthen this year, due to an uptick in institutional and commercial construction, as well as some engineering infrastructure projects. The ramp-up of the Caribou mine will lift mining output, although it will be somewhat offset by last year's closure of the potash mine. While there is some uncertainty surrounding the Softwood Lumber Agreement, strong U.S. demand should bode well for lumber exports from the province. All told, economic activity is expected to accelerate slightly from last year's estimated 0.6% pace, reaching 0.9% by 2018.

Nova Scotia's non-residential construction outlook is less optimistic, as a number of major projects will wrap up this year. However, manufacturing is expected to be a source of strength, with ongoing shipbuilding activity and tire and food manufacturing boosting output. Exports are also likely to gain some traction, with the seafood industry one area of potential strength. Indeed, at the start of this year, China reduced tariffs on several seafood items, representing roughly a quarter of Canada's seafood exports to China. As Canada's largest seafood exporter, Nova Scotia is likely to be a primary beneficiary. Overall, economic growth in the province is projected to hold near 1.5% through 2018.

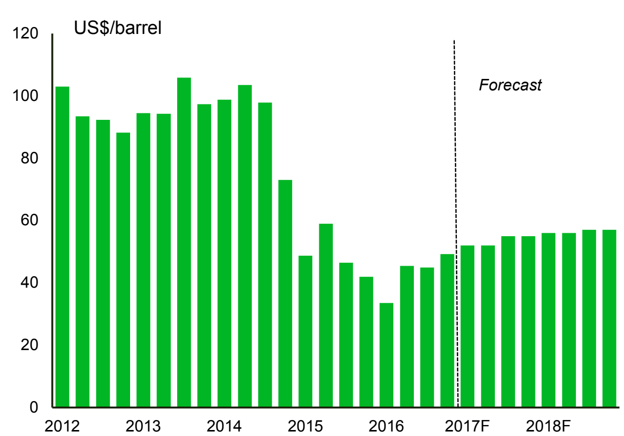
The manufacturing sector has also been supportive of PEI's economy, with shipments in the province rising 5.8% in 2016 – the largest jump across provinces. Wholesale trade was up by a similar amount, while the province's agriculture sector has benefited from higher yields and prices for potatoes. Employment in the province has gained some traction of late – particularly in the services sector – bringing the unemployment rate down to around 10% so far this year. Going forward, these sectors are likely to remain supportive for growth in the economy. While the provincial government's capital budget contained significant increases for this year, the recent survey of capital spending intentions in the province points to an overall drop in non-residential construction. All told, economic growth in PEI is expected to hover around the 1.5% mark over the 2017-18 period.

Recovery on the horizon for oil-producing regions

Crude oil prices slipped below the US$50 per barrel mark in recent weeks, after holding just above that level since the end of November when OPEC members and a group of non-OPEC countries agreed to curtail oil production. While some downside risk persists depending on market perception of the rebalancing, we continue to expect oil prices to remain around current levels in the near term, before heading to the mid-US$50 per barrel range toward the end of this year and into 2018.

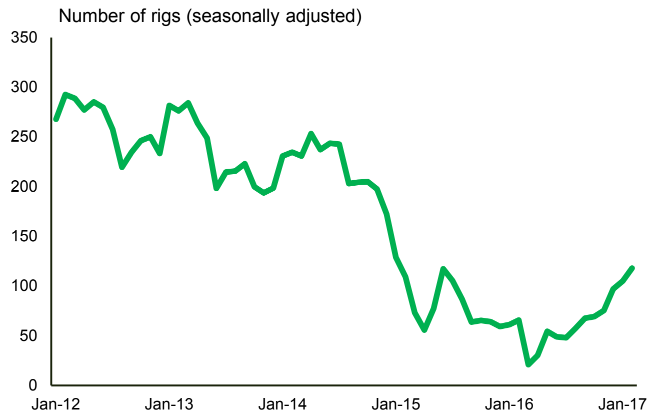
The higher level of prices relative to last year continues to bode well for oil producing provinces, and will be reflected in higher nominal GDP growth this year. While current prices will hardly be enough to trigger a surge in investment, the bleeding in capital spending that occurred within the sector over 2015-16 is likely to stop this year.

CHART 7: CRUDE OIL PRICES



Source: Haver Analytics; Forecast by TD Economics as at March 2017.

CHART 8: CANADIAN OIL RIG COUNTS



Source: Baker Hughes, TD Economics.

This will be supportive to economic growth in these provinces. Already, rig counts in Canada have doubled between December and February. And, a few new projects in Alberta and Newfoundland and Labrador are set to ramp-up this year and/or next, lifting overall output. Saskatchewan, however, is likely to see more modest growth in crude oil output.

With the worst of the oil price correction likely in the rear-view mirror, the outlook for Alberta and Saskatchewan has brightened. In Alberta, reconstruction efforts following the Fort McMurray wildfires last May will provide a boost to growth this year. Meanwhile, the uptick in oil production is poised to lift exports and have spillover effects on other industries, such as manufacturing, transportation and engineering construction. The recently tabled fiscal year 2017-18 Budget was stimulative in nature, with the government continuing its commitment to investing in healthcare, education and social services. As such, Alberta is expected to move from the worst performing provincial economy in 2016, to the best in 2017 and 2018, with economic activity expanding by more than 2%.

Saskatchewan's bounce back will be less pronounced than Alberta's, but supported by a number of industries. Agriculture should remain among the top performing sectors, with export demand – particularly for canola – likely to strengthen. Manufacturing gained some momentum over the second half of last year, with food manufacturing up by a whopping 25%. While potash prices are not expected to move materially higher, output from the ramp up of the K+S Legacy mine this year should offset previously announced cutbacks scheduled at other locations in early 2017, and boost overall potash output in 2018. Residential construction activity is expected to support growth this year, while non-residential construction may also show some improvement. In contrast, the Budget Plan for the upcoming fiscal year was less stimulative than what has been the case in recent years, consisting of tax hikes and expenditure restraint. Overall, economic growth in the province is expected to trail the national pace in 2017 before reaching 2% by 2018, second only to Alberta.

Newfoundland and Labrador will have to wait a little longer for the economic tide to turn, and 2017 will likely mark the fourth year of economic contraction. While higher oil prices will help fiscal coffers, it won't be nearly enough to deter the provincial government from following the path of austerity that was announced in last year's budget. A number of fees and tax increases that were announced in that budget came into effect at the start of this year, which will weigh on personal disposable income and will likely hold back consumer spending. What's more, the upcoming budget in April could contain further austerity measures, which could weigh on economic growth even more.

Meanwhile, a number of non-residential construction projects are winding down, with capital investment in the province likely to take a big hit. Residential construction is also expected to be a drag on growth, with housing starts retracing by nearly 8% this year. Perhaps the one bright spot is the Hebron project which is slated to begin pumping oil by the end of this year, and will have a significant impact on oil output in 2018. All told, economic activity is expected to contract by close to 2% this year, before higher oil production helps the economy eke out a bit of growth in 2018.

Bottom Line

A number of economic indicators point to a pickup in economic activity heading into 2017, leading us to upwardly revise our outlook for most provincial economies, with Ontario, B.C. and Alberta receiving the largest forecast upgrades. However, we caution that this more upbeat view still depicts an overall economy running at an average pace of 2.1% over the next two years, which is reflected by relatively moderate growth and convergence across the vast majority of provinces. That view remains unaltered.

SUMMARY TABLES

REAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change					
	2014	2015	2016E	2017F	2018F
CANADA	2.6	0.9	1.4	2.3	1.9
N. & L.	-1.0	-2.0	-0.1	-1.9	0.4
P.E.I.	1.5	1.3	1.7	1.5	1.4
N.S.	0.8	1.0	1.5	1.5	1.5
N.B.	-0.1	2.3	0.6	0.8	0.9
Québec	1.3	1.2	1.8	1.8	1.7
Ontario	2.7	2.5	2.7	2.6	1.9
Manitoba	1.5	2.2	2.0	1.8	1.6
Sask.	2.4	-1.3	-0.5	1.4	2.0
Alberta	5.0	-3.6	-2.3	2.6	2.3
B.C.	3.3	3.3	3.3	2.4	1.9
E|F: Forecast by TD Economics as at March 2017.					
Source: Statistics Canada / haver Analytics					

NOMINAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change					
	2014	2015E	2016E	2017F	2018F
CANADA	4.5	0.2	2.0	4.7	4.0
N. & L.	-1.3	-11.5	-1.9	1.9	2.0
P.E.I.	3.5	3.9	2.7	3.0	3.5
N.S.	1.7	2.4	2.5	3.4	3.1
N.B.	1.0	2.9	1.5	2.9	3.2
Québec	1.9	2.6	3.1	3.9	3.5
Ontario	4.7	4.9	4.6	4.9	4.0
Manitoba	2.5	3.1	2.7	4.0	3.8
Sask.	1.3	-5.7	-1.5	5.0	4.5
Alberta	8.9	-12.5	-5.1	6.2	4.8
B.C.	5.2	3.8	4.2	4.6	3.8
E|F: Forecast by TD Economics as at March 2017.					
Source: Statistics Canada / haver Analytics					

EMPLOYMENT Annual average per cent change					
	2014	2015	2016	2017F	2018F
CANADA	0.6	0.9	0.7	1.2	0.5
N. & L.	-1.9	-1.0	-1.4	-1.2	-0.6
P.E.I.	-0.5	-0.9	-2.3	0.8	-0.1
N.S.	-1.1	0.1	-0.4	0.5	0.1
N.B.	-0.2	-0.5	-0.1	0.4	0.0
Québec	-0.1	1.0	0.9	1.3	0.6
Ontario	0.8	0.7	1.1	1.3	0.7
Manitoba	0.1	1.5	-0.5	0.7	0.5
Sask.	1.0	0.6	-0.9	0.4	0.7
Alberta	2.2	1.2	-1.6	0.4	1.0
B.C.	0.6	1.3	3.1	1.8	0.2
E|F: Forecast by TD Economics as at March 2017.					
Source: Statistics Canada / haver Analytics					

UNEMPLOYMENT RATE Annual, per cent					
	2014	2015	2016	2017F	2018F
CANADA	6.9	6.9	7.0	6.7	6.7
N. & L.	11.9	12.8	13.4	14.2	14.6
P.E.I.	10.6	10.4	10.7	10.3	10.5
N.S.	9.0	8.6	8.3	8.0	8.1
N.B.	9.9	9.8	9.5	9.3	9.4
Québec	7.7	7.6	7.1	6.4	6.3
Ontario	7.3	6.8	6.5	6.3	6.3
Manitoba	5.4	5.6	6.1	6.0	5.8
Sask.	3.8	5.0	6.3	6.2	5.9
Alberta	4.7	6.0	8.1	8.4	7.9
B.C.	6.1	6.2	6.0	5.7	5.8
E|F: Forecast by TD Economics as at March 2017.					
Source: Statistics Canada / haver Analytics					

CONSUMER PRICE INDEX (CPI) Annual average per cent change					
	2014	2015	2016	2017F	2018F
CANADA	1.9	1.1	1.4	2.1	2.1
N. & L.	1.9	0.4	2.7	3.3	2.0
P.E.I.	1.6	-0.6	1.2	2.0	2.0
N.S.	1.7	0.4	1.2	2.2	2.1
N.B.	1.5	0.5	2.2	2.5	2.0
Québec	1.4	1.1	0.7	1.5	1.7
Ontario	2.3	1.2	1.8	2.2	2.1
Manitoba	1.8	1.2	1.3	2.1	2.1
Sask.	2.4	1.6	1.1	2.1	2.3
Alberta	2.6	1.2	1.1	2.3	2.6
B.C.	1.0	1.1	1.9	1.9	1.7
E|F: Forecast by TD Economics as at March 2017.					
Source: Statistics Canada / haver Analytics					

RETAIL TRADE Annual average per cent change					
	2014	2015	2016	2017F	2018F
CANADA	4.6	1.7	3.7	4.0	3.8
N. & L.	3.4	0.2	0.9	2.1	3.7
P.E.I.	3.3	2.3	6.5	4.1	3.7
N.S.	2.3	-0.6	4.2	4.0	3.0
N.B.	3.8	2.4	3.2	3.4	3.3
Québec	1.7	0.5	4.3	4.0	3.5
Ontario	5.0	4.2	4.7	4.7	3.6
Manitoba	4.3	1.5	4.4	3.3	4.3
Sask.	4.6	-3.5	1.1	3.8	4.6
Alberta	7.5	-4.6	-1.6	4.0	4.8
B.C.	5.6	6.0	6.3	5.3	3.9
E|F: Forecast by TD Economics as at March 2017.					
Source: Statistics Canada / haver Analytics					

HOUSING STARTS Thousands of units	2014	2015	2016	2017F	2018F
CANADA	189.1	193.5	198.4	201.0	186.9
N. & L.	2.3	1.8	1.5	1.4	1.4
P.E.I.	0.5	0.5	0.5	0.6	0.6
N.S.	3.1	3.9	3.7	4.1	4.0
N.B.	2.3	2.0	1.9	1.8	2.0
Québec	39.1	36.7	38.6	41.3	35.5
Ontario	58.6	69.0	75.2	80.5	73.5
Manitoba	6.2	5.6	5.3	6.5	6.0
Sask.	8.3	5.2	4.9	4.6	4.9
Alberta	40.6	37.5	24.6	24.1	22.5
B.C.	28.3	31.5	42.1	36.3	36.5

F: Forecast by TD Economics as at March 2017.
Source: CMHC / haver2 Analytics

HOUSING STARTS Per cent change	2014	2015	2016	2017F	2018F
CANADA	0.6	2.3	2.5	1.3	-7.0
N. & L.	-21.3	-19.5	-15.3	-9.4	-1.0
P.E.I.	-18.5	4.1	1.0	2.3	-1.0
N.S.	-21.7	26.4	-4.6	10.3	-0.6
N.B.	-17.8	-15.1	-5.7	-5.2	14.3
Québec	3.9	-6.3	5.4	6.8	-14.0
Ontario	-3.8	17.7	9.1	6.9	-8.7
Manitoba	-17.6	-9.8	-4.4	21.1	-7.4
Sask.	-0.1	-37.4	-5.7	-5.5	6.5
Alberta	12.5	-7.5	-34.4	-1.8	-6.8
B.C.	4.4	11.4	33.7	-13.7	0.5

F: Forecast by TD Economics as at March 2017.
Source: CMHC / haver2 Analytics

EXISTING HOME SALES Thousands of units	2014	2015	2016	2017F	2018F
CANADA	476.7	502.3	534.7	530.0	516.9
N. & L.	4.2	4.3	4.1	3.6	3.7
P.E.I.	1.4	1.7	2.0	1.9	1.9
N.S.	8.9	9.2	10.0	10.1	10.3
N.B.	6.3	6.7	7.2	7.6	7.5
Québec	70.6	74.1	78.2	81.1	82.1
Ontario	201.5	220.6	242.0	251.7	239.5
Manitoba	13.8	14.0	14.6	15.0	15.4
Sask.	13.7	12.2	11.7	11.4	11.4
Alberta	71.8	56.5	52.2	55.4	50.9
B.C.	84.1	102.5	112.2	91.7	93.7

F: Forecast by TD Economics as at March 2017.
Source: Canadian Real Estate Association

EXISTING HOME SALES Per cent change	2014	2015	2016	2017F	2018F
CANADA	4.4	5.4	6.5	-0.9	-2.5
N. & L.	-3.5	2.4	-3.9	-10.9	2.0
P.E.I.	-0.6	17.0	21.9	-8.0	3.8
N.S.	-2.2	3.2	8.1	1.0	2.4
N.B.	0.0	6.5	7.3	5.5	-1.3
Québec	-0.8	5.0	5.5	3.7	1.3
Ontario	2.1	9.5	9.7	4.0	-4.8
Manitoba	0.3	1.7	3.8	3.2	2.3
Sask.	1.2	-10.6	-4.5	-2.3	0.0
Alberta	8.6	-21.3	-7.6	6.2	-8.2
B.C.	15.2	22.0	9.5	-18.2	2.1

F: Forecast by TD Economics as at March 2017.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE Thousands of C$	2014	2015	2016	2017F	2018F
CANADA	406.7	440.6	487.3	511.1	518.9
N. & L.	285.2	276.5	256.6	247.6	253.1
P.E.I.	163.6	162.1	176.8	196.8	196.0
N.S.	213.2	217.7	219.8	211.9	214.7
N.B.	161.0	159.3	161.8	168.4	170.4
Québec	271.4	275.3	283.9	291.3	297.0
Ontario	428.3	460.5	531.7	613.0	622.9
Manitoba	264.7	268.2	276.3	284.6	283.9
Sask.	298.0	296.8	294.5	287.6	288.4
Alberta	399.9	391.5	393.2	396.2	400.5
B.C.	570.4	637.2	681.4	656.4	674.8

F: Forecast by TD Economics as at March 2017.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE Per cent change	2014	2015	2016	2017F	2018F
CANADA	6.6	8.3	10.6	4.9	1.5
N. & L.	0.5	-3.0	-7.2	-3.5	2.2
P.E.I.	5.5	-0.9	9.1	11.3	-0.4
N.S.	-0.7	2.1	1.0	-3.6	1.4
N.B.	-0.2	-1.0	1.6	4.0	1.2
Québec	1.4	1.5	3.1	2.6	2.0
Ontario	6.7	7.5	15.5	15.3	1.6
Manitoba	1.5	1.3	3.0	3.0	-0.3
Sask.	3.7	-0.4	-0.8	-2.3	0.3
Alberta	5.2	-2.1	0.4	0.8	1.1
B.C.	6.1	11.7	6.9	-3.7	2.8

F: Forecast by TD Economics as at March 2017.
Source: Canadian Real Estate Association