

PROVINCIAL ECONOMIC FORECAST UPDATE

TD Economics



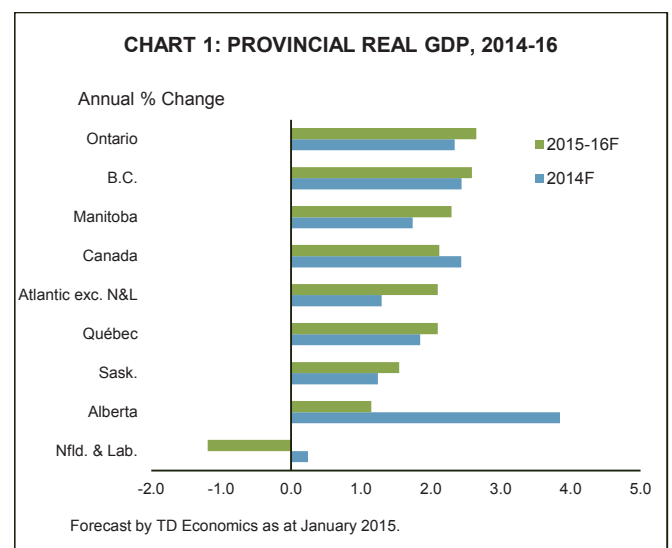
January 26, 2015

DOWNGRADES TO OIL-PRODUCING PROVINCES, OTHER REGIONS NUDGED UPWARDS

- As highlighted in our Observation report Crude Oil Prices: Lower for Longer, the price of oil has continued its free-fall since our last Quarterly Provincial Economic Forecast (PEF) in mid-December. As such, we have slashed our oil price forecast to average US\$47 per barrel for 2015 and \$65 for 2016. This profile is roughly US\$15-\$20 per barrel lower relative to that assumed in the December PEF.
- This oil price downgrade is expected to translate into a sharp widening in economic performances between the major oil-producing provinces of Alberta, Newfoundland and Labrador and Saskatchewan and other regions. Real GDP in Alberta (+1.1%) is projected to grow at roughly half the pace of the national average over the 2015-16 period, sliding down the growth charts from third place in December to ninth. Saskatchewan is also likely to underperform over the next two years, with average real GDP gains of around 1.5%. Newfoundland and Labrador is expected to lag all other provinces with an outright contraction in real GDP over the forecast period. The hit to aggregate incomes in these regions is even more striking – with all three provinces expected to record notable drops in nominal GDP in 2015.
- On the flipside, non-resource based economies are expected to further benefit from energy cost savings and an accompanying depreciation in the Canadian dollar. Solid economic growth from the U.S. should also provide a lift to these economies. Consistent with our December forecast, Ontario is projected to top the growth charts over the next two years with B.C., Manitoba and Nova Scotia anticipated to trail closely behind.

Oil-producing regions expected to feel the weight of lower oil prices

- Economic activity in Alberta is projected to grind to a virtual standstill in 2015. Our updated forecast now calls for real GDP growth to inch forward by only 0.5% this year before accelerating to 1.8% in 2016. Recently, a slew of downbeat operational plans coming out of the oil patch have pointed to a pullback in hiring and lower capital outlays in the oil sands in 2015. Oil production is still on track to expand this year; however, housing activity will be adversely affected by the economic slowdown. Weaker employment and income gains are expected to translate into a downturn in the resale market, which is estimated to lead to a pullback in new residential construction activity. From a government perspective, the hit to revenues has been dramatic. As such, expenditure restraint is clearly in the cards for the province, limiting the public sec-

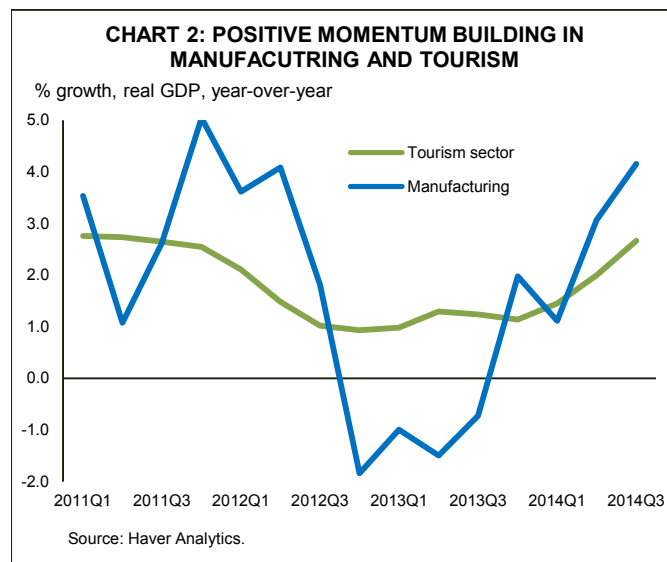


tor's contribution to economic growth in the near term.

- In Newfoundland and Labrador, where economic activity is notoriously volatile, nominal income is forecast to contract by a hefty 8% in 2015 and recover only slightly in 2016. Mirroring the struggles in Alberta, the government reported that the royalty revenue forecast for fiscal 2014-15 was downwardly adjusted, leaving the estimated deficit at close to \$1 billion, or the largest relative to GDP across the provinces. The public sector (public administration, educational services and health care and social assistance) accounts for around 20% of total real GDP – higher than any other oil-producing region. As such, a pullback in public sector activity will likely weigh heavily on economic activity over the next few years. What's more, the recent announcements by Husky and Suncor that the White Rose extension will be delayed will put a dent in non-residential and engineering construction over the medium-term relative to our forecast in December.
- Saskatchewan's economy benefits from a higher degree of resource diversity than that of its oil-producing counterparts. Still, the negative impacts of weaker production and investment in the province's oil patch will be compounded by a correction in the housing market. Signs of extreme weakness in the housing market have been exhibited over the past half year, reflecting weaker demand and a multi-year period of overbuilding. We expect home resale prices and housing starts to move lower over the forecast period. And, while the government remains in a surplus position at last count in November, Premier Wall has recognized that the government will need to be in belt-tightening mode in this lower oil price environment. All told, our forecast calls for real GDP growth to average a modest 1.5% over the 2015-16 period.

Improved economic prospects across the rest of Canada: Ontario and B.C. to top growth charts

- In contrast, the economic growth profiles for most non-oil producing regions have been nudged upwards relative to our December forecast, especially for 2015. Ontario is still forecast to top the growth charts, averaging gains of 2.7% over the 2015-16 period, followed closely by B.C. (+2.6%), Nova Scotia (+2.3%) and Manitoba (+2.3%). Other provinces are expected to be tightly packed in the 1.5-2% range.
- Outperforming regions are expected to enjoy solid contributions from their manufacturing and/or tourism



sectors over the next few years. Ontario, with its particularly strong manufacturing reliance, is particularly well-positioned to benefit. In British Columbia, improving job conditions relative to those of neighbouring Alberta will act as a magnet drawing interprovincial migrants into B.C. over the next few years. This will deliver an added fillip to domestic spending prospects.

- Housing markets in the oil-consuming regions are expected to fare well in the near term, as interest rates stay extremely low. However, decreases in affordability tied in part to further gains in home prices over 2014 will likely act as a growing headwind in markets in Ontario and B.C. over the forecast period. East of Ontario, there appears to be more medium-term upside to housing markets in light of soft landings that have been recorded over the past few years. Weak government fiscal positions in Manitoba, Ontario, Québec, and the Maritime provinces will continue to present a challenge. The upcoming 2015 budget round is likely to feature ongoing restraint, leaving the impetus for near-term economic growth squarely on the private sector.

Bottom line

- The recent slide in crude oil prices is likely to drive a sizeable near-term wedge in economic performances between the three major oil-producing provinces and other regions. This differential could start to narrow next year as oil prices gradually strengthen beginning in the latter part of 2015.

REAL GROSS DOMESTIC PRODUCT (GDP)					
Annual average per cent change					
	2012	2013	2014F	2015F	2016F
CANADA	1.9	2.0	2.4	2.0	2.2
N. & L.	-4.5	7.2	0.2	-1.2	-1.2
P.E.I.	1.0	2.0	1.5	1.6	1.6
N.S.	-0.3	0.3	1.5	2.3	2.3
N.B.	-0.4	-0.5	0.9	2.0	1.8
Québec	1.5	1.0	1.8	2.2	2.0
Ontario	1.7	1.3	2.3	2.8	2.5
Manitoba	3.3	2.2	1.7	2.5	2.1
Sask.	3.1	5.0	1.2	1.3	1.8
Alberta	4.5	3.8	3.8	0.5	1.8
B.C.	2.4	1.9	2.4	2.7	2.5

F: Forecast by TD Economics as at January 2015.
Source: Statistics Canada / Haver Analytics

NOMINAL GROSS DOMESTIC PRODUCT (GDP)					
Annual average per cent change					
	2012	2013	2014F	2015F	2016F
CANADA	3.5	3.4	4.3	1.1	4.7
N. & L.	-3.4	10.7	1.5	-8.3	2.9
P.E.I.	1.9	5.0	3.3	1.7	3.5
N.S.	-0.4	2.4	4.0	2.9	4.6
N.B.	1.1	0.5	2.5	2.3	3.9
Québec	3.4	1.5	3.5	2.8	4.2
Ontario	3.2	2.4	4.2	3.4	4.7
Manitoba	6.0	3.7	3.8	3.2	4.7
Sask.	5.7	5.5	1.1	-2.4	4.6
Alberta	5.6	7.1	6.6	-6.6	5.9
B.C.	2.3	3.2	4.2	3.1	4.6

F: Forecast by TD Economics as at January 2015.
Source: Statistics Canada / Haver Analytics

EMPLOYMENT					
Annual average per cent change					
	2012	2013	2014	2015F	2016F
CANADA	1.2	1.3	0.8	1.1	0.9
N. & L.	2.3	1.0	-2.1	-0.8	-0.6
P.E.I.	1.1	1.8	0.2	0.6	0.7
N.S.	0.6	-0.4	-1.4	1.2	0.8
N.B.	-0.2	-0.1	0.2	0.7	0.6
Québec	0.8	1.2	-0.1	0.9	0.7
Ontario	0.8	1.4	0.8	1.4	1.1
Manitoba	0.9	0.5	0.2	1.2	0.7
Sask.	2.1	3.4	1.9	0.7	0.8
Alberta	2.7	2.9	3.0	0.2	0.8
B.C.	1.7	-0.2	0.9	1.5	1.0

F: Forecast by TD Economics as at January 2015.
Source: Statistics Canada / Haver Analytics

UNEMPLOYMENT RATE					
Annual, per cent					
	2012	2013	2014	2015F	2016F
CANADA	7.2	7.1	6.9	6.8	6.8
N. & L.	12.5	11.4	12.0	12.4	12.7
P.E.I.	11.3	11.5	10.8	10.7	10.6
N.S.	9.0	9.0	8.8	8.7	8.8
N.B.	10.2	10.4	9.8	9.7	9.7
Québec	7.8	7.6	7.7	7.6	7.5
Ontario	7.8	7.5	7.3	6.9	6.8
Manitoba	5.3	5.4	5.4	5.3	5.5
Sask.	4.7	4.0	3.7	4.3	4.5
Alberta	4.6	4.6	4.6	5.3	5.6
B.C.	6.7	6.6	6.0	5.8	5.8

F: Forecast by TD Economics as at January 2015.
Source: Statistics Canada / Haver Analytics

CONSUMER PRICE INDEX (CPI)					
Annual average per cent change					
	2012	2013	2014	2015F	2016F
CANADA	1.5	0.9	1.9	0.4	2.3
N. & L.	2.1	1.7	1.9	0.0	2.0
P.E.I.	2.0	2.0	1.6	0.1	1.9
N.S.	2.0	1.2	1.7	0.7	2.3
N.B.	1.7	0.8	1.5	0.3	2.1
Québec	2.1	0.7	1.4	0.7	2.2
Ontario	1.4	1.0	2.3	0.7	2.3
Manitoba	1.6	2.2	1.8	0.7	2.3
Sask.	1.6	1.5	2.4	0.3	2.3
Alberta	1.1	1.4	2.6	0.1	2.4
B.C.	1.1	-0.1	1.0	0.6	2.2

F: Forecast by TD Economics as at January 2015.
Source: Statistics Canada / Haver Analytics

RETAIL TRADE					
Annual average per cent change					
	2012	2013	2014F	2015F	2016F
CANADA	2.5	3.2	4.8	2.9	3.6
N. & L.	4.5	5.0	3.0	0.0	1.0
P.E.I.	3.2	0.8	2.8	2.8	3.2
N.S.	1.0	2.9	2.7	3.0	3.8
N.B.	-0.7	0.7	3.6	2.8	3.5
Québec	1.2	2.5	3.1	3.2	3.6
Ontario	1.6	2.3	4.4	3.7	3.9
Manitoba	1.3	3.9	3.7	3.4	3.0
Sask.	7.4	5.1	5.0	2.8	3.0
Alberta	7.0	6.9	8.3	1.0	3.4
B.C.	1.9	2.4	5.7	3.7	3.7

F: Forecast by TD Economics as at January 2015.
Source: Statistics Canada / Haver Analytics

HOUSING STARTS					
Thousands of units					
	2012	2013	2014	2015F	2016F
CANADA	214.8	187.9	189.0	177.0	176.9
N. & L.	3.9	2.9	2.2	2.2	2.4
P.E.I.	1.0	0.6	0.5	0.6	0.6
N.S.	4.6	3.9	3.1	3.8	3.9
N.B.	3.3	2.8	2.3	3.0	3.4
Québec	47.2	37.6	39.1	37.7	38.2
Ontario	77.4	60.9	58.4	57.4	57.3
Manitoba	7.3	7.5	6.2	4.9	6.0
Sask.	10.0	8.3	8.3	7.4	7.0
Alberta	33.3	36.1	40.6	33.5	32.3
B.C.	27.5	27.1	28.3	26.6	25.9

F: Forecast by TD Economics as at January 2015.
Source: CMHC / Haver Analytics

HOUSING STARTS					
Per cent change					
	2012	2013	2014	2015F	2016F
CANADA	10.8	-12.5	0.6	-6.3	-0.1
N. & L.	11.4	-26.3	-21.6	-2.0	8.0
P.E.I.	0.3	-33.2	-19.0	6.6	5.5
N.S.	-2.2	-14.4	-21.8	24.4	1.3
N.B.	-0.3	-13.4	-18.7	30.7	14.2
Québec	-2.3	-20.3	3.8	-3.5	1.2
Ontario	14.2	-21.4	-4.0	-1.8	-0.2
Manitoba	21.3	2.6	-17.4	-20.9	22.4
Sask.	42.6	-17.1	0.8	-11.2	-5.1
Alberta	30.4	8.2	12.6	-17.4	-3.6
B.C.	4.4	-1.5	4.6	-6.0	-2.6

F: Forecast by TD Economics as at January 2015.
Source: CMHC / Haver Analytics

EXISTING HOME SALES					
Thousands of units					
	2012	2013	2014	2015F	2016F
CANADA	454.3	457.6	481.2	472.9	476.4
N. & L.	4.6	4.3	4.1	3.9	3.9
P.E.I.	1.6	1.4	1.4	1.3	1.3
N.S.	10.4	9.1	8.8	9.2	9.3
N.B.	6.4	6.3	6.3	6.2	6.3
Québec	77.4	71.2	70.7	73.0	74.6
Ontario	197.6	198.5	206.0	207.1	207.9
Manitoba	13.9	13.7	13.8	13.4	13.7
Sask.	13.9	13.5	13.9	12.9	13.2
Alberta	60.4	66.1	71.8	56.8	55.6
B.C.	67.6	72.9	84.1	89.0	90.7

F: Forecast by TD Economics as at January 2015.
Source: Canadian Real Estate Association

EXISTING HOME SALES					
Per cent change					
	2012	2013	2014	2015F	2016F
CANADA	-1.2	0.7	5.1	-1.7	0.7
N. & L.	3.8	-7.4	-4.7	-5.3	-0.5
P.E.I.	6.0	-11.7	-3.2	-6.5	2.7
N.S.	1.2	-12.3	-3.6	4.2	1.4
N.B.	-3.0	-2.0	-0.1	-0.6	0.3
Québec	0.3	-8.0	-0.7	3.3	2.1
Ontario	-2.1	0.5	3.7	0.6	0.3
Manitoba	0.2	-1.3	0.3	-3.1	2.3
Sask.	5.6	-2.4	2.5	-6.7	2.0
Alberta	12.3	9.5	8.6	-20.8	-2.2
B.C.	-11.8	7.8	15.2	5.9	1.9

F: Forecast by TD Economics as at January 2015.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE					
Thousands of C\$					
	2012	2013	2014	2015F	2016F
CANADA	361.5	381.7	407.0	413.5	417.3
N. & L.	269.2	283.7	284.3	268.3	267.2
P.E.I.	152.7	155.1	165.1	164.9	166.6
N.S.	218.2	216.3	213.5	212.1	213.8
N.B.	159.4	161.4	161.1	159.7	160.0
Québec	264.6	267.7	271.4	269.9	273.9
Ontario	381.3	400.7	428.6	441.7	451.4
Manitoba	246.6	260.7	264.7	259.6	257.1
Sask.	275.2	287.5	297.9	289.1	288.6
Alberta	362.0	380.2	399.8	385.6	380.5
B.C.	512.9	537.6	570.2	586.5	584.9

F: Forecast by TD Economics as at January 2015.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE					
Per cent change					
	2012	2013	2014	2015F	2016F
CANADA	0.3	5.6	6.6	1.6	0.9
N. & L.	7.6	5.4	0.2	-5.6	-0.4
P.E.I.	3.7	1.6	6.4	-0.1	1.0
N.S.	2.8	-0.9	-1.3	-0.7	0.8
N.B.	0.2	1.3	-0.2	-0.8	0.2
Québec	4.1	1.2	1.4	-0.5	1.5
Ontario	5.0	5.1	7.0	3.1	2.2
Manitoba	4.9	5.7	1.5	-1.9	-1.0
Sask.	6.4	4.5	3.6	-3.0	-0.2
Alberta	2.6	5.0	5.2	-3.5	-1.3
B.C.	-7.9	4.8	6.1	2.9	-0.3

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Source: Canadian Real Estate Association



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