Provincial Economic Forecast

Better, but Not Strong

March 20, 2024

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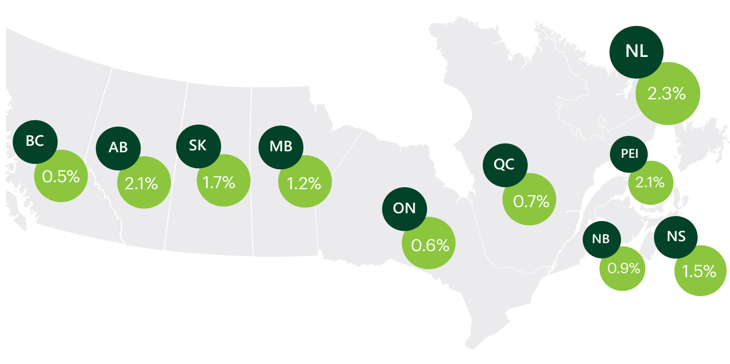
- We've upgraded our 2024 growth projections coast-to-coast, reflecting improved capital spending prospects and a better-than-expected U.S. growth backdrop. However, sub-trend performances are still probably in the cards for most provinces. Relative growth rankings are mostly unchanged from our prior forecast in that we still expect the Atlantic Region and Prairies to outperform, while more modest showings are likely in Ontario, B.C., and Quebec.
- We're halfway through the 2024 budget season and with all but one of the "Big 4" provinces (Ontario) having released their fiscal blueprints, some key takeaways have emerged. Ramped up spending plans (relative to prior fiscal updates) and/or tax relief measures should support economic growth, particularly in B.C., Quebec, and Nova Scotia. These actions do come with a cost, however, with deficits of around 1-2% of GDP expected this year. Alberta is the lone exception, with surpluses projected over the next several years.
- First quarter growth in Canadian average home prices is tracking stronger than our prior forecast, with B.C. and Ontario making the largest contribution to this upside surprise. With conditions firming up in these two markets, we now see positive price growth in nearly all provinces this year, headlined by Alberta and parts of the Atlantic.
- Above-average levels of population growth are still expected for the year ahead as permanent immigrant targets remain high. The surge of non-permanent residents however will taper by the end of the year, helped by recent initiatives such as the Federal government's international study visa cap. The cap, which is expected to keep the pool of international study permit holders constant over the next two years, will likely have the biggest effect on Ontario, B.C., Nova Scotia and New Brunswick.
- Commodity-producing provinces are still in the best position to weather growth headwinds. Crude oil prices appear to be sustainably hovering at a healthy $80 a barrel as markets reconcile complex supply-demand cross-currents. We still expect oil and most other commodity prices to remain above their-long-term averages, providing a solid floor for activity in commodity-oriented provinces.
- Unemployment rates across jurisdictions will continue their ascent this year. Across the provinces, Alberta and the Atlantic region should outperform as still-decent employment growth can better keep pace with labour force gains. Ontario, Quebec, and British Columbia will likely suffer from a more pronounced slowdown in hiring.

Provincial Real GDP Growth Forecast (2024)



Source: TD Economics. Forecast as of March 2024.

For more details on our national forecast see our Quarterly Economic Forecast

British Columbia

British Columbia's (B.C.) economy will likely underperform the nation for a second straight year in 2024. An outlook for stall-speed growth is a result of subdued prospects for consumer spending, a cloudy external backdrop, and weak investment prospects. However, we do see scope for a turnaround in 2025, at which time the B.C. economy likely regains its status as an above-average performer.

High interest rates and a more pronounced slowing in B.C.'s labour market drove a decline in inflation-adjusted consumer spending in 2023. We're expecting more of the same in 2024. On the plus side, the soft spending trajectory should contribute to a further moderation in inflation. Still, B.C. households remain the most indebted in the nation (Chart 1), which will continue to put a damper on near-term growth prospects.

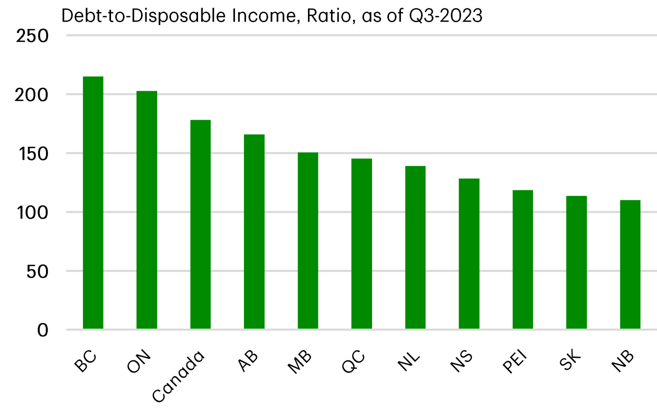
Weakness in household spending is being mirrored to some extent on the business side. This was reflected in 2024 capital expenditure intentions that pointed to a 5.3% decline in B.C., in contrast to gains recorded in most other provinces. This comes as the investment and employment impulse from large-scale projects – notably LNG Canada and Site C Dam – winds down this year.

B.C.'s export values dropped 13% in 2023 compared to the year prior, led by declines in forestry and natural gas products (Chart 2). The near-term outlook for exports are mixed. Natural gas prices started this year under downward pressure, while forest-product producers are bracing for an increase in U.S. tariffs on Canadian softwood lumber. However, export prospects brighten into 2025, helped by a recovery in natural gas prices and U.S. demand, the start-up of LNG Canada, and rising U.S. homebuilding activity.

In B.C.'s 2024 Budget, the government announced plans to use some of its fiscal wiggle room from a relatively low debt burden to boost spending on priority areas. The 6.7% growth for operating spending this upcoming fiscal year – at the top end of provincial budgets so far this year – should provide a modest lift to economic activity.

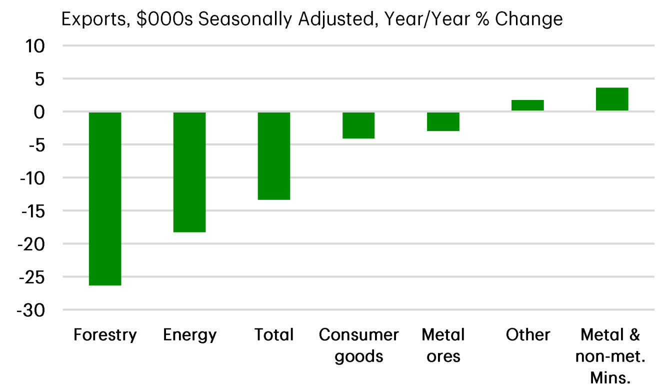
As a side note, B.C. recently received their application processing cap from the IRCC as part of the Federal government's new international student policy. B.C. has been allocated 83k study permit applications for 2024 (down from 97k in 2023). Based on historical approval levels, the government expects actual approved permits to only be lower by 10,000 (or 17%) this year, at most. We don't believe this policy will carry negative consequences for the province.

Chart 1: B.C. Households Still the Most Indebted



Source: Statistics Canada, TD Economics.

Chart 2: Energy and Forestry Products Are the Biggest Drag on B.C. Exports



Source: BC Stats, TD Economics.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023	2024F	2025F
Real GDP	1.0	0.5	1.9
Nominal GDP	2.7	3.7	4.1
Employment	1.6	1.6	0.2
Unemployment Rate (%)	5.2	5.8	6.2
Housing Starts (000's)	50.6	41.8	42.3
Existing Home Prices	-1.5	1.2	2.8
Home Sales	-9.2	3.8	18.3

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Alberta

Alberta continues to be insulated, though not immune, to the broader macroeconomic headwinds facing the nation as a whole. High interest rates have recently pressured consumers into slower spending, but a still-supportive commodities backdrop and durable population gains will keep the provincial economy growing at a faster rate than most Canadian jurisdictions in 2024.

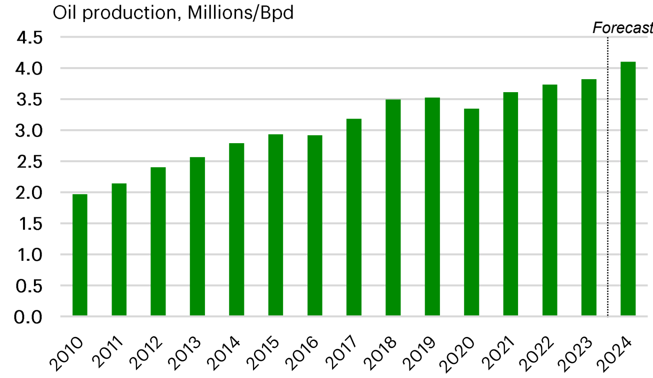
The long-awaited Trans Mountain Pipeline (TMP) expansion is nearly complete, with line fill expected in April. Increased pipeline capacity will allow producers to ramp up output by over 5% in annual terms (Chart 1), while bolstering prices for Canadian oil. The Alberta government has also incorporated a $74/bbl forecast for 2024 WTI prices, which we think is conservative. Our $80/bbl forecast for the year suggests considerable upside to resource revenues and will continue to support sector profitability. Although Alberta's total capital expenditure intentions are down in 2024 (-0.9% y/y), investment plans in the oil and gas sector are pegged at a healthier 6%.

Population growth this year will likely outpace most other jurisdictions, but it will slow from last year's blistering pace. For now, the rising headcount has helped drive an outperformance in home sales, up nearly 30% from last year's levels and well above the province's 5-year average. Relatively tight resale markets will be key in driving another year of outsized residential investment gains in 2024 (Chart 2).

Underpinned by still-solid growth prospects and lingering labour market tightness, the pace of hiring in the province is likely to remain healthy, even as it slows from last year's elevated rate. Rising employment would support further spending, though per-capita consumption is slated to fall for a second consecutive year. Further, our internal spending data through February shows spending off to a sluggish start this year. A slower demand trajectory should help to take some heat out of inflation, which at 4.2%, is growing at the fastest pace across the provinces.

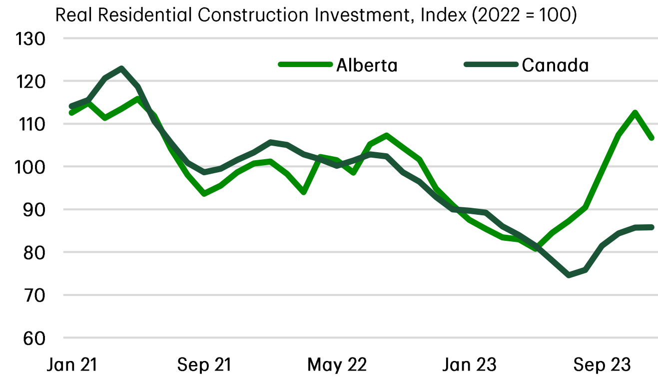
In its annual Budget presented last month, the government projected a narrow FY 2024/25 surplus, with continued and growing surpluses over the forecast horizon. Spending plans are incremental, with the overall focus being on long-term sustainability of the government's fiscal position. Alberta will retain its status as Canada's least indebted province and also widen its advantage, as net debt-to-GDP is projected to fall to 7.7% in FY 2026/27.

Chart 1: Alberta Oil Production Ramping Up in Preparation for Trans Mountain Pipeline



Source: Alberta Energy Regulator, TD Economics.

Chart 2: Alberta's Residential Investment Momentum To Continue This Year



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	2.3	2.1	1.9
Nominal GDP	-1.1	5.7	4.0
Employment	3.6	2.9	1.1
Unemployment Rate (%)	5.9	6.4	6.4
Housing Starts (000's)	35.9	36.6	31.4
Existing Home Prices	0.6	8.5	4.2
Home Sales	-8.0	11.0	6.1

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Saskatchewan

Saskatchewan's economy in 2023 slightly disappointed against our early-year expectations that it would top provincial growth charts. Still, at an estimated 1.3%, it will slightly outperform the Canadian average. On the plus side, an expected mix of firmer conditions in wheat and potash markets, increased global demand, and positive investment prospects should drive a moderate pickup in Saskatchewan's real GDP growth in 2024.

Unfavourable growing conditions last year hampered Saskatchewan's principal crop production. Volatile weather will continue to be an ongoing concern, but early-year expectations are pointing to a bounce back in 2024 crop output, after a 10% decline the year prior. Meanwhile, agricultural export activity is dependent on whether China's economy can build some momentum after recent softening.

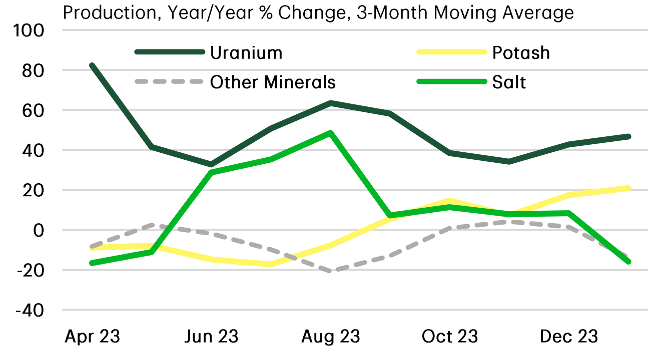
Potash prices have slowly climbed higher in recent months after being down a substantial 50% since peaking in 2022. This has provided support to potash production over the last two quarters. Only uranium has recorded a faster growth rate over this time, (Chart 1), as prices continue to boast record highs. Elsewhere, oil sector prospects also remain relatively bright, where WTI crude prices are expected to hold in the healthy $75-$85 range over the next few years. Under such a price environment, oil production is projected to notch moderate gains over the medium-term.

A rebound in key commodities is expected to draw sizeable investment to the province. For example, the $6.4 billion in spending committed by BHP to build the second stage of its Jansen potash mine, which bolsters the outlook for investment and jobs. Such investment underpins a sharp 28% jump in mining sector investment intentions this year. In terms of overall private investment intentions, Saskatchewan (14.4%) has taken first place among the provinces.

Although employment growth lagged in 2023, Saskatchewan continues to boast the highest job vacancy rate and lowest unemployment rate across provinces. This points to lingering labour market tightness that will buoy employment gains through the year and support consumer spending. In this vein, Saskatchewan is less exposed to the ongoing impacts of elevated interest rates. In fact, updated provincial debt metrics show households moving from one of the more indebted provinces to one of the least (Chart 2). Coupled with relatively affordable housing, consumers are well-positioned to grow their spending over the forecast horizon.

Chart 1: Uranium Production Continues to Surge; Potash Production Strengthening

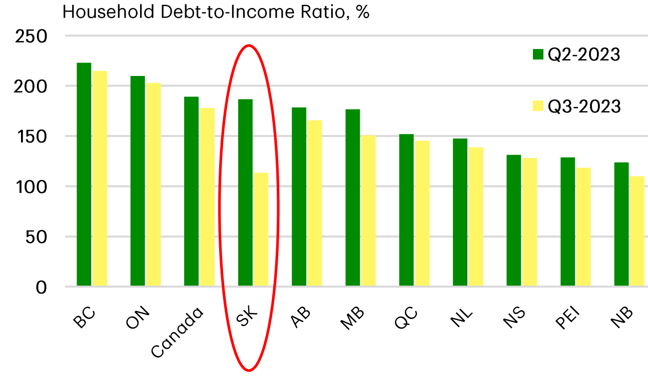
Production, Year/Year % Change, 3-Month Moving Average



Source: Saskatchewan Ministry of Energy and Resources, TD Economics.

Chart 2: Saskatchewan's Household Debt Burden Eased Considerably

Household Debt-to-Income Ratio, %



Source: Statstics Canada, TD Economics.

Saskatchewan Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.3	1.7	1.7
Nominal GDP	-0.6	5.1	3.5
Employment	1.8	1.7	0.8
Unemployment Rate (%)	4.8	5.3	5.4
Housing Starts (000's)	4.6	3.9	4.6
Existing Home Prices	-0.2	5.0	4.8
Home Sales	-3.0	7.7	10.7

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Manitoba

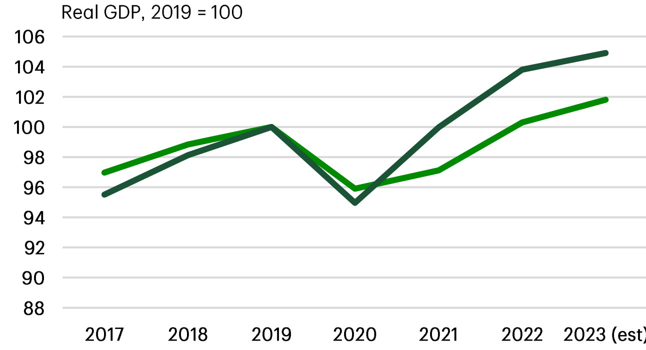
Although likely outpacing that of Canada, Manitoba's estimated economic expansion in 2023 ranks as unimpressive considering the province's relatively lackluster recovery from the pandemic (Chart 1). Last year, drought conditions impacted output in several key industries, including in agriculture and the hydroelectric sector. Meanwhile, higher interest rates kept retail spending subdued and weighed on construction activity.

News in the job market last year was considerably more upbeat, where net hiring tipped the scales at a solid 2.5%, with another modest gain chalked so far this year. Manitoba's job market is likely still in a state of excess demand, evidenced by job vacancies that were 50% above pre-pandemic levels late last year – dwarfing the same measure for the country overall (Chart 2). Worker shortages appear most pronounced in trucking, healthcare, construction, and accommodation/food services, and these pressures should keep hiring on the uptrend in these industries, capping the expected rise in Manitoba's unemployment rate compared to other parts of the country. Along with tax cuts rolled out in recent years, this should keep household spending growing at a moderate rate, likely outdoing Canada's gain. Subdued inflation trends should also help pad the wallets of consumers, with February's 0.9% rate the lowest in the country thanks, in part, to a fuel tax cut.

Outside of its labour market performance, other factors should keep Manitoba's economy growing at a faster rate than Canada's this year. Commodity prices are part of this expectation, as prices for key crops like canola and wheat remain elevated which is boosting incomes in the province. In addition, household debt levels in the province are well below what they are for Canada overall, likely reducing the interest-rate sensitivity of Manitoba's consumers. What's more, recently released capital spending intentions point to relatively firm investment growth in Manitoba this year, supported by expenditures in manufacturing and the public sector. We should note that our outlook for economic growth in 2024 rests on the assumption that weather conditions will be co-operative, which is far from guaranteed.

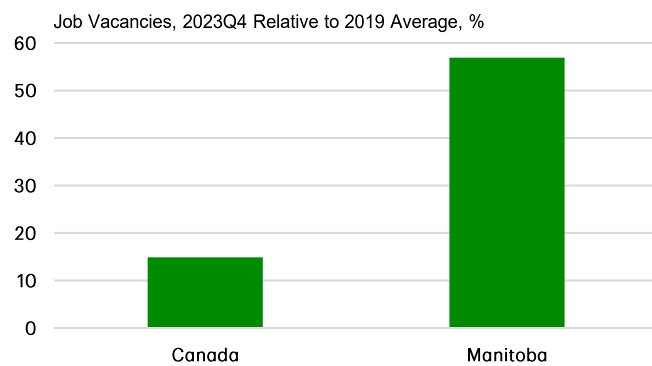
Even though Manitoba's growth is likely to exceed Canada's in 2024, it should still be subdued relative to history. Interprovincial exports should take a hit this year, on a more modest domestic growth backdrop. A sub-trend performance is also expected in China, Manitoba's second largest export destination.

Chart 1: Manitoba Has Had A Lackluster Recovery From the Pandemic



Source: Statistics Canada, TD Economics.
*Manitoba's 2023 growth rate is forecast by TD Economics.

Chart 2: Resilient Labour Demand to Fuel Outsized Job Growth in Manitoba This Year



Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.5	1.2	1.4
Nominal GDP	3.4	4.8	3.4
Employment	2.5	1.7	0.4
Unemployment Rate (%)	4.8	4.8	5.2
Housing Starts (000's)	7.1	5.4	6.2
Existing Home Prices	-2.7	5.0	4.0
Home Sales	-10.0	8.3	7.0

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Ontario

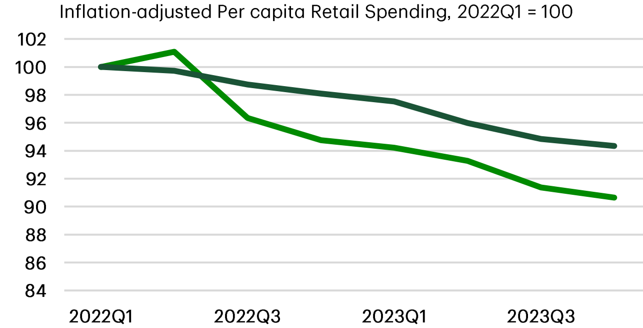
According to the Province's quarterly accounts data, Ontario's economy expanded at a sub-trend 1.3% pace through the first three quarters of last year – slightly outpacing the rest of Canada. Household spending was an important part of this outperformance, with both services and durables spending holding up surprisingly well. In our view, the former represents Ontario playing catch-up in terms of services spending to the rest of Canada after the comparatively severe lockdowns during the pandemic.

Ontario's outperformance in durables is more curious, as households in the province are the second most indebted in the country and should therefore be relatively sensitive to elevated borrowing costs. Note that the spending data in the accounts doesn't line up with Statistics Canada's retail spending data, which point to a worse picture for durable purchases (Chart 1). This highlights the potential for downward revisions to this category going forward (see report). Now that services spending has made up the lost ground, we look for Ontario's consumer spending to underperform the rest of Canada's through the forecast horizon. A further drag on consumption might also come from the federal cap on foreign students, which could disproportionately hit Ontario's population growth.

Ontario's housing markets were the most heavily impacted by the Bank of Canada's rate hike campaign. However, they've staged a modest turnaround in more recently, supported by a downtrend in bond yields and favourable weather conditions. We now look for average prices to drop 2% this year, a notable upgrade compared to the mid-single digit decline in our prior forecast. Still, tough affordability conditions should persist (even with the Bank of Canada likely to cut rates in the summer), limiting gains in housing activity.

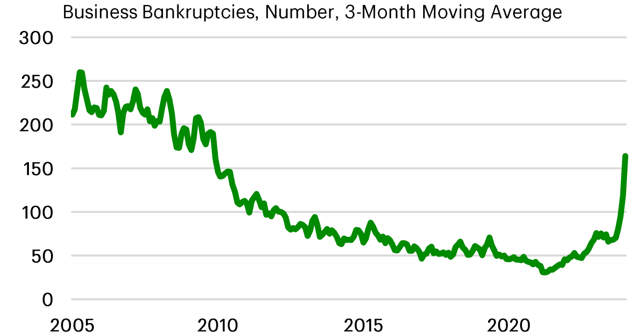
Business bankruptcies in Ontario have surged in recent months amid economic weakness (Chart 2). This is a tough development for a jobs market that's already softening. Private sector employment has been falling since mid-2023, and the ratio of job openings to unemployed workers (a proxy for job market tightness) had dropped below its pre-pandemic average at the end of 2023. These trends square with our view that Ontario's unemployment rate will post a relatively steep increase in 2024. It has already climbed 1.4 ppts from its 2022 nadir through February of this year.

Chart 1: Retail Sales Data Suggests that Durables Spending Has Been Softer in Ontario than Canada



Source: Statistics Canada, TD Economics

Chart 2: Bankruptcies on the Rise in Ontario, Which Should Strain an Already Cooling Jobs Market



Source: Statistics Canada, TD Economics

Ontario Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.3	0.6	1.5
Nominal GDP	4.3	3.9	3.4
Employment	2.4	0.4	1.0
Unemployment Rate (%)	5.7	6.9	7.1
Housing Starts (000's)	90.0	86.0	89.4
Existing Home Prices	-5.3	-2.0	2.7
Home Sales	-11.9	11.4	13.8

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Québec

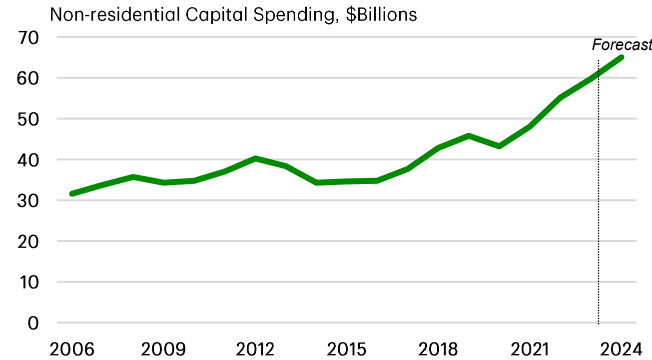
At a mere +0.1%, estimated economic growth in Quebec last year was about as close to the expansion/contraction line as one can get. That said, the unusually weak performance was partly driven by special factors. For instance, droughts hammered hydroelectric production. Residential construction also declined significantly, but this was a right-sizing in activity after a couple of years of overbuilding. Combined, these two factors shaved an estimated 0.5 ppts off GDP last year, suggesting a somewhat better underlying picture. Consistent with that narrative, the job market held firm, with employment rising 2.3% - well above the long-term average.

Public sector activity was also hammered in the final two months of the year by strikes, driving a yet another decline in overall GDP in the fourth quarter. However, these strikes were resolved in December, which should fuel a significant bounce back in GDP early this year. Another factor that should support an acceleration in GDP this year is investment activity, which is expected to be solid in 2024, according to Statcan's recently released capital spending intentions survey (Chart 1). Construction of the $7 billion Northvolt EV battery plant is underway and is expected to be completed by 2026. Meanwhile, homebuilding is unlikely to be the enormous drag on growth that it was in 2023, and the government's recently released budget points to solid program spending growth this year.

One area of Quebec's economy that didn't struggle last year was household spending. Indeed, through the first three quarters of 2023, it was up a healthy 2.6% year-on-year, supported by solid job (and wage) gains and the strongest population growth since the 1950s. A massive inflow of temporary foreign workers supported Quebec's population expansion. The increase in those individuals with study permits was much smaller, and given Quebec's relatively low intake, is unlikely to be negatively affected by the recently announced federal international student caps.

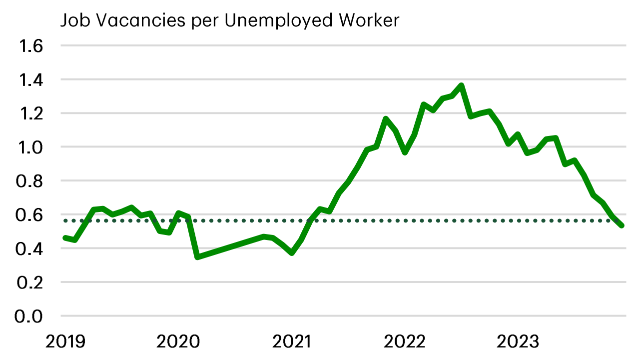
We expect consumption will hold relatively firm in Quebec over the forecast horizon (albeit still suffer under the weight of elevated borrowing costs), supported by ongoing job growth. What's more, households have relatively low debt levels and are carrying ample savings from which to draw down to finance spending. That said, slower economic growth has helped job markets become much better-balanced (Chart 2), which should cool wage growth and limit gains in household spending.

Chart 1: Non-residential Investment to Support Stronger GDP Growth in Quebec This Year



Source: Statistics Canada, TD Economics.

Chart 2: Quebec's Job's Market Has Shifted into Much Better Balance



Source: Statistics Canada, TD Economics.

Québec Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	0.1	0.7	1.2
Nominal GDP	3.8	4.3	3.5
Employment	2.3	0.3	0.5
Unemployment Rate (%)	4.4	5.4	5.8
Housing Starts (000's)	39.6	43.6	47.1
Existing Home Prices	0.3	6.1	3.5
Home Sales	-12.7	13.5	6.1

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

New Brunswick

We've only made minor changes to New Brunswick's (N.B.) economic outlook. At 0.9% in 2024 and 1.5% in 2025, real GDP growth in the province is estimated to fall in line with national growth. Record-setting population gains last year helped vault the province to materially better spending and employment numbers relative to other provinces (Chart 1). We expect another solid performance on the household side this year, though still-tepid global goods demand is likely to continue to put a damper on the province's key manufacturing industry.

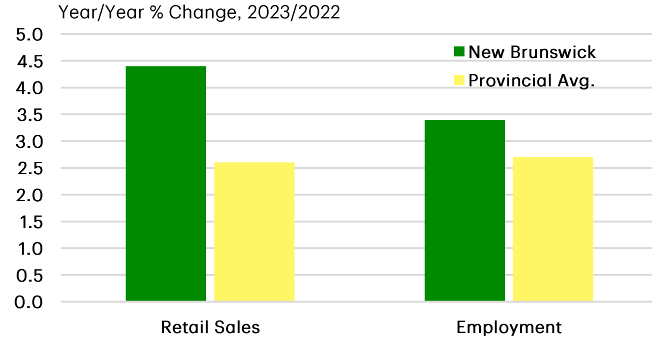
Among their Canadian counterparts, N.B. households carry the least debt relative to incomes, better shielding consumers against sharply higher borrowing costs. As we near closer to interest rate relief from the Bank of Canada, positive spending trends are expected to continue. Like most provinces, population growth will moderate this year. But we still expect upward job market momentum to continue given the province's job skew towards public services, in which sectors still have relatively high job vacancy rates.

On the downside, GDP likely won't get much near-term boost from investment activity. According to Statcan's recently-released capital spending intentions survey, both government and private investment is set to decline in 2024. In turn, this suggests that strength in non-residential construction investment over the back half of 2023 is unlikely to be sustained.

The external backdrop has taken some wind out of N.B.'s sails, and we expect exports to remain relatively soft. Broadly decelerating growth in the domestic and global economies, the shift in spending patterns towards services, and weaker prices contributed to a 10% drop in nominal exports last year. The resilience of the US economy–where 90% of the province's international exports are shipped–likely cushioned exports from a potentially steeper contraction last year and should help mitigate any severe downside to exports this year. Manufacturing sales, which are lagging other provinces, are tracking a fifth consecutive quarterly decline. (Chart 2).

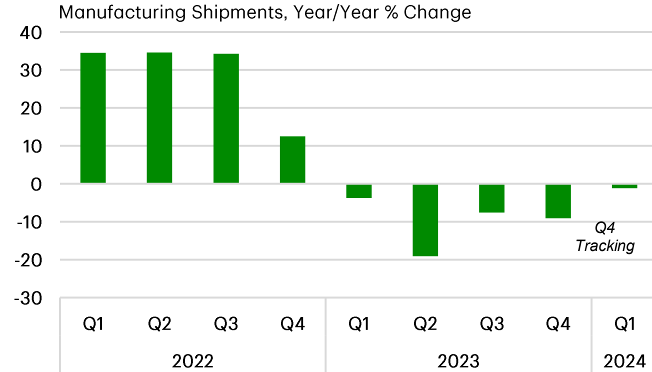
In its updated 2024 Budget, the government revealed a projected FY 24/25 surplus of $41 million, with small surpluses forecasted over the planning horizon. At around 6% growth, program spending is robust, focusing on education and social development. The government still sports a favourable net debt profile and continues to enjoy some fiscal wiggle room relative to other provinces.

Chart 1: Population Surge Fueled Spending and Employment Gains in New Brunswick



Source: Statistics Canada, TD Economics.

Chart 2: New Brunswick's Manufacturing Shipments Facing Headwinds



Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.2	0.9	1.3
Nominal GDP	3.1	3.8	3.3
Employment	3.4	1.7	0.3
Unemployment Rate (%)	6.6	7.1	7.3
Housing Starts (000's)	4.9	3.2	2.7
Existing Home Prices	2.6	10.1	4.0
Home Sales	-13.5	5.6	6.0

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Nova Scotia

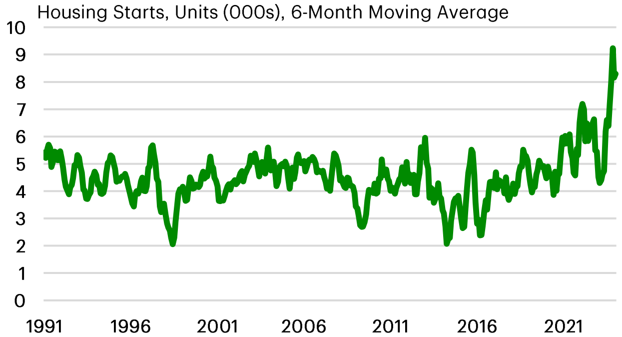
Nova Scotia is one province where we've made a notable upgrade to our 2024 economic growth forecast, leaving it roughly on par with the 10-year average. However, our 2023 growth projection is unchanged from our December outlook. Last year, growth was likely given a boost by the finance, insurance, and real estate sector, consistent with a 7% surge in hiring, despite weaker home sales in the wake of rising borrowing costs. More broadly, economic activity was supported by very robust population growth, which fueled solid hiring and underpinned strong homebuilding (Chart 1). On the flipside, weak government hiring suggests less of a contribution from Nova Scotia's outsized public sector last year, while agricultural, utilities and manufacturing output all weighed.

For 2024, we see much faster growth, relative to our prior forecast, on the strength of a few factors. First, hiring is off to a solid start in 2024, underpinned by firm population growth and a still-elevated level of vacant positions. Second, the recently released capital spending intentions survey points to a 16% gain in investment this year (Chart 2), supported by an expected surge in machinery and equipment expenditures in the public sector. Third, we've upgraded our U.S. economic growth forecast, and lastly, the province's recent budget signaled stronger government spending this year than what we had previously expected.

Government spending plans in the latest budget also feature in our midly upgraded 2025 growth outlook. In addition, the government of Nova Scotia will be rolling out notable tax relief starting in January 2025, boosting the disposable incomes of households. Note that these same households are well positioned to handle the impact of elevated borrowing costs, as their debt levels are relatively low.

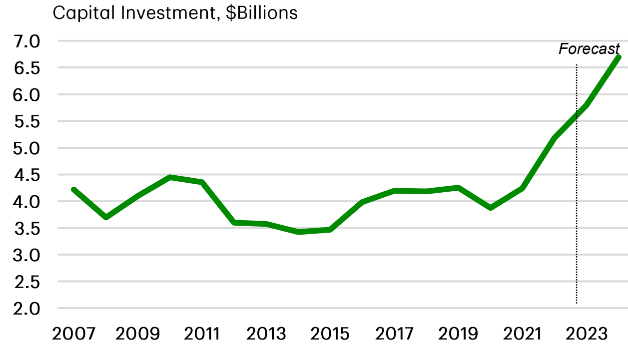
The higher backdrop for interest rates in recent years has only managed to slow the previously torrid pace of home price growth in Nova Scotia. Indeed, as of February, home prices were still 65% above their pre-pandemic level, one of the largest gaps in Canada. With economic growth likely to proceed at a near-trend pace, resilient job markets and supply/demand balances signaling that housing markets remain tight, prices are likely to continue rising over the forecast horizon. High home prices, alongside the boost coming from Nova Scotia's decision to drop its portion of the HST on the construction of purpose-built rental units, should keep homebuilding elevated.

Chart 1: Strong Population Growth Boosting Homebuilding in Nova Scotia



Source: CMHC, TD Economics

Chart 2: The Public Sector to Drive Another Strong Investment Year in Nova Scotia



Source: Statistics Canada, TD Economics

Nova Scotia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.4	1.5	1.3
Nominal GDP	4.2	5.0	3.4
Employment	2.7	3.7	0.3
Unemployment Rate (%)	6.4	6.6	6.7
Housing Starts (000's)	7.2	6.8	5.9
Existing Home Prices	3.1	4.5	3.6
Home Sales	-17.6	7.4	8.9

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Prince Edward Island

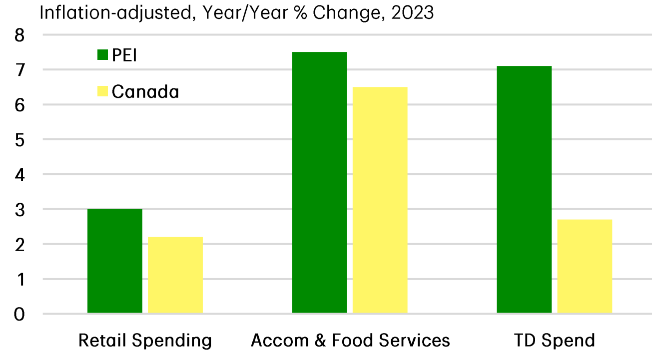
PEI's near-term economic outlook has brightened materially relative to the prior forecast. Indeed, our 2023 and 2024 real GDP growth projections have incorporated sizeable boosts. Last year, household spending grew firmly on the Island, as evidenced by outperformances in retail spending, outlays on accommodation and food services, and our internal data which tracks debit and credit card transactions (Chart 1). Consumer spending on the Island is benefitting from low average debt levels. Meanwhile, consumer price inflation has dramatically reduced, sporting a 1.5% handle in February. This low starting point will provide a cushion, as the lifting of PEI's rent freeze early this year upwardly pressures shelter costs for Islanders going forward.

Probably the most important lift to consumption has come from PEI's ballooning population. This massive inflow has ensured a healthy supply of workers, fueling the strongest job growth in the country, and bringing the job vacancy rate back to its pre-pandemic level. This healthy hiring momentum has sustained itself so far this year, supporting our steep growth upgrade. Elsewhere, the recently released capital spending intentions survey points to a 20% gain in non-residential investment this year, which suggests a firm year is in the cards for construction. The government's recent budget called for a solid spending gain this year, concentrated in healthcare, which implies a notable growth contribution from the Island's outsized public sector. The government will also continue its roll-out of household tax relief, slated to support disposable incomes and consumption in 2025.

PEI's exports advanced at a solid pace of around 15% in 2023. However, peeling back the onion on last year's gain leaves a less impressive picture. Indeed, growth was driven by shipments of potato products, which benefited from the lifting of a U.S. ban. Excluding this boost, exports were much weaker (Chart 2). Note that interprovincial markets are a relatively important source of export demand in PEI. And, slower economic growth across Canada bodes poorly. Weaker labour markets across Canada and the U.S. should also impede the recovery in PEI's tourism sector, which already hit a wall in the second half of last year on a moderation in domestic visits.

Chart 1: Population Growth Fueling PEI's Consumption Strength

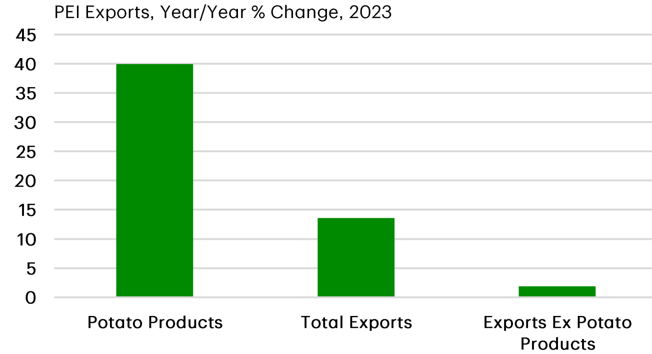
Inflation-adjusted, Year/Year % Change, 2023



Source: Statistics Canada, TD Economics

Chart 2: PEI Exports Mostly a One-Trick Pony Last Year

PEI Exports, Year/Year % Change, 2023



Source: Government of Canada, TD Economics

P.E.I. Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	2.7	2.1	1.4
Nominal GDP	5.5	5.7	3.6
Employment	5.7	3.3	0.5
Unemployment Rate (%)	7.4	7.7	7.9
Housing Starts (000's)	0.9	1.1	1.2
Existing Home Prices	-2.1	4.6	3.1
Home Sales	-5.8	-0.5	7.5

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Newfoundland & Labrador

Newfoundland and Labrador's (N.L.) economy is estimated to have contracted for a second straight year in 2023. The province's extended decline was narrowly driven by a slowdown in the oil sector. Fortunately, a rebound in both the oil sector and the broader economy is the cards for this year, as most maintenance at major offshore facilities is complete and the long-awaited Terra Nova vessel is back online. At 2.3% real GDP growth in 2024, N.L. is expected to lead the provinces before moderating in 2025.

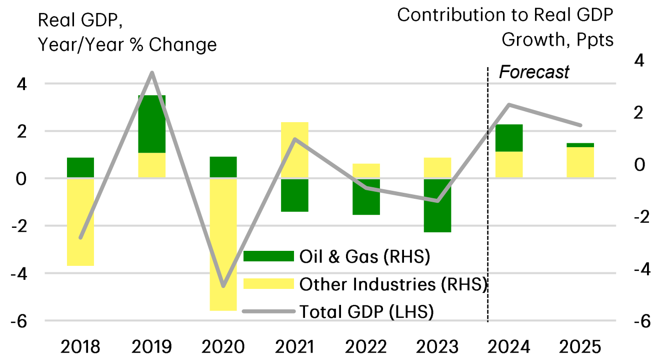
The oil sector accounts for almost one-fifth of total economic output in N&L, the most of any province. We expect oil production to advance by a healthy 6-8% this year, contributing almost half to total GDP growth (Chart 1). It will take some time for Terra Nova to produce at full capacity, but the makeover is forecast to extend the vessel's life by 10 years and produce an additional 70 million barrels—a solid source of oil production for years to come.

Like the oil sector, mining activity is due for a bounce back this year after two years of declining industry activity. Metals prices, namely iron ore, nickel, and copper are poised to find support as central banks move into less restrictive policy this year, spurring an increase in global demand and production. The mining sector remains a medium-term bright spot for N.L.'s economy as mineral exploration expenditures ramp up with support from the provincial government's investments in its Critical Minerals Plan.

The N&L government also recently signed an agreement with the federal government that, if passed, would allow N.L. to solely regulate its renewable energy developments. This would mark a significant economic opportunity for the jurisdiction and would support future investment for offshore wind development projects. In this vein, construction of Canada's first wind-hydrogen project in N.L. could be starting sometime in the second half of 2025, providing a tailwind to employment and overall economic activity.

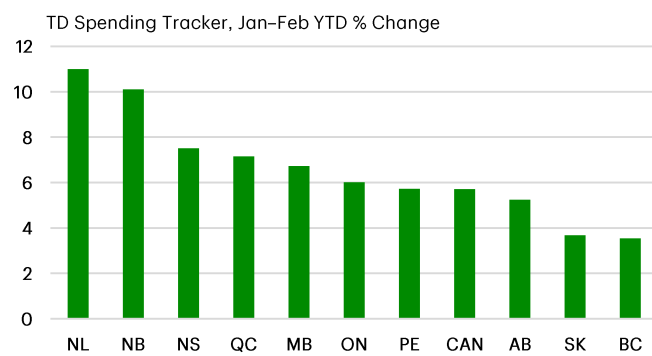
The performance of domestic-oriented industries has held up comparatively well notwithstanding the Bank of Canada's aggressive rate hiking campaign. Decent employment strength has broadly supported consumer spending, with retail sales turning in a surprising advance in 2023. What's more, internal TD spending data shows the momentum in household spending carrying over into 2024, with N&L leading all provinces in terms of gains in outlays (Chart 2).

Chart 1: Oil Sector to Make Sizeable Contribution to N.L. GDP Growth



Source: Statistics Canada,TD Economics.

Chart 2: Newfoundland Leads Provinces in 2024 Year-to-Date Spending



Source: TD Economics.

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023	2024F	2025F
Real GDP	-1.3	2.3	1.3
Nominal GDP	-4.8	5.6	3.3
Employment	1.7	3.1	0.1
Unemployment Rate (%)	9.9	10.7	11.3
Housing Starts (000's)	1.0	1.3	1.3
Existing Home Prices	0.8	8.7	3.1
Home Sales	-15.2	7.4	5.2

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Provincial Economic Forecasts

Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (Average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F
National	**1.1**	**0.9**	**1.5**	**2.7**	**4.4**	**3.6**	**2.4**	**1.1**	**0.7**	**5.4**	**6.3**	**6.6**	**241.7**	**229.7**	**232.1**	**-3.0**	**1.2**	**4.3**
Newfoundland & Labrador	-1.3	2.3	1.3	-4.8	5.6	3.3	1.7	3.1	0.1	9.9	10.7	11.3	1.0	1.3	1.3	0.8	8.7	3.1
Prince Edward Island	2.7	2.1	1.4	5.5	5.7	3.6	5.7	3.3	0.5	7.4	7.7	7.9	0.9	1.1	1.2	-2.1	4.6	3.1
Nova Scotia	1.4	1.5	1.3	4.2	5.0	3.4	2.7	3.7	0.3	6.4	6.6	6.7	7.2	6.8	5.9	3.1	4.5	3.6
New Brunswick	1.2	0.9	1.3	3.1	3.8	3.3	3.4	1.7	0.3	6.6	7.1	7.3	4.9	3.2	2.7	2.6	10.1	4.0
Québec	0.1	0.7	1.2	3.8	4.3	3.5	2.3	0.3	0.5	4.4	5.4	5.8	39.6	43.6	47.1	0.3	6.1	3.5
Ontario	1.3	0.6	1.5	4.3	3.9	3.4	2.4	0.4	1.0	5.7	6.9	7.1	90.0	86.0	89.4	-5.3	-2.0	2.7
Manitoba	1.5	1.2	1.4	3.4	4.8	3.4	2.5	1.7	0.4	4.8	4.8	5.2	7.1	5.4	6.2	-2.7	5.0	4.0
Saskatchewan	1.3	1.7	1.7	-0.6	5.1	3.5	1.8	1.7	0.8	4.8	5.3	5.4	4.6	3.9	4.6	-0.2	5.0	4.8
Alberta	2.3	2.1	1.9	-1.1	5.7	4.0	3.6	2.9	1.1	5.9	6.4	6.4	35.9	36.6	31.4	0.6	8.5	4.2
British Columbia	1.0	0.5	1.9	2.7	3.7	4.1	1.6	1.6	0.2	5.2	5.8	6.2	50.6	41.8	42.3	-1.5	1.2	2.8

F: Forecast by TD Economics, March 2024. Source: Canadian Real Estate Association, Canada Mortgage and Housing Corporation, Statistics Canada, TD Economics.

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