Provincial Forecast Update

Provinces Poised For Severe Contractions In 2020

Note: Given rapid changes in the economic and policy environment, we will be publishing more frequent updates to our forecast as conditions warrant.

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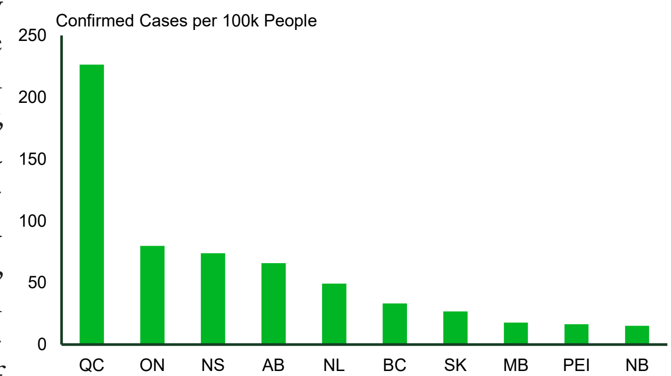
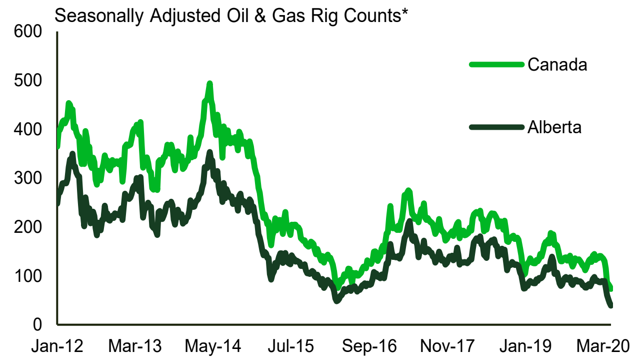
- All provinces are suffering severe contractions under the weight of COVID-19, although each province has their own unique COVID-19 experience (Chart 1). While much work remains, all provinces have shown progress in containing COVID-19. This will pave the way for a slow re-opening of provincial economies, though this process will not be uniform.
- The oil-producing regions are witnessing a unique 1-2 punch to their economies. Like other provinces, COVID-19 is disproportionately impacting their services sectors. Adding salt to the wound, however, is the unprecedented oil price shock. As such, we expect this year's real GDP contractions - and jumps in jobless rates - to be disproportionately large relative to the rest of Canada. These provinces' recovery to pre-COVID-19 levels of activity is also expected to be slower.
    - Particularly reliant on its energy sector, **Alberta** sits at the bottom of the provincial leaderboard this year. In response to the oil price collapse, capital spending in the sector has been slashed by at least 30% from already-low levels, rig counts have fallen even further (Chart 2), and economy-wide income is poised for a double-digit drop. Unlike the 2015-16 experience, large-scale shut-ins (reportedly around 300-400K bpd now and may reportedly reach more than 1 million bpd or more) will weigh heavily on oil production and exports. Substantial provincial and federal government supports have been announced, including an orphaned well cleanup program totalling $1.7 billion to the Western provinces. These measures will be supportive, but only mildly so given the scale of the shock.
    - **Newfoundland and Labrador's** economy is also heavily exposed to the energy sector. Like Alberta, incomes are being hard-hit, and drilling activity has reportedly been halted in its Hibernia field. The province's major refinery, which processes up to 130K bpd, has also announced a complete pause to activity. It's not just oil - mining activity at Voisey's Bay nickel mine has slowed after it switched to maintenance mode due to COVID-19. Unlike Alberta, Newfoundland and Labrador has substantially less room to provide fiscal support. The Province came into this crisis with the largest structural deficit (as a percentage of GDP) and a lofty debt-load.

Chart 1: Larger Provinces Generally Hit Harder by COVID-19



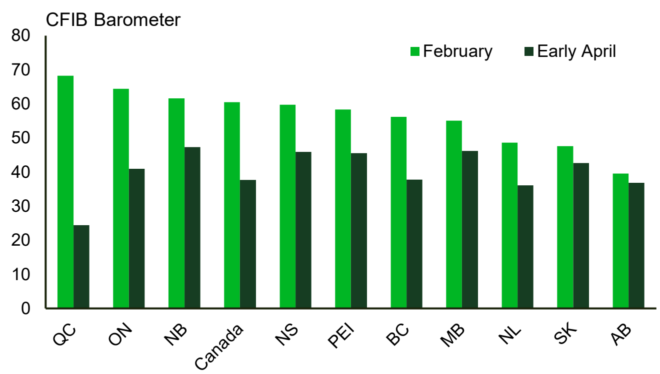
Source: Statistics Canada, TD Economics

Chart 2: Canada's and Alberta's Oil & Gas Rig Counts Tumble



* Data Seasonally Adjusted by TD Economics. Source: Baker Hughes, TD Economics. Last data point April 17, 2020.

Chart 3: Across the Board Deterioration in Small Business Confidence

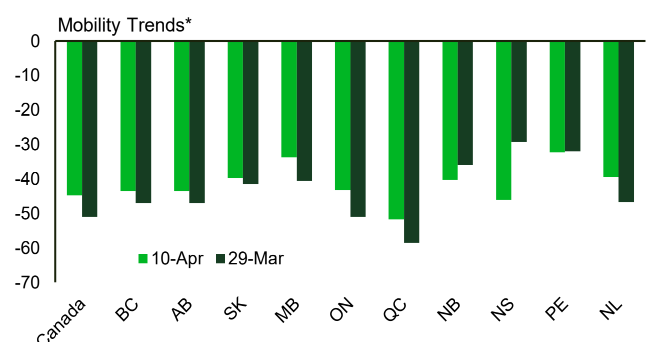


Source: CFIB TD Economics

- **Saskatchewan** is still expected to fare slightly worse than the national average. However, unlike its neighbor to the west, Saskatchewan's economy is more diversified, modestly lessening the hit from the oil price shock. Less impacted commodity sectors such as potash and agriculture may act as a buffer. Meanwhile, the province's relatively low COVID-19 case count and notably improving trajectory may support a quicker (yet still gradual) reopening of activity in its services sectors. Indeed, the government is set to announce a five-stage plan later today detailing its steps to reopen the economy starting in May.
- In **Manitoba**, job markets and small business confidence have thus far experienced lesser declines (Chart 3), signaling a smaller hit to output from the virus. And, with the province experiencing a relatively low number of cases, plans for a gradual re-opening of the economy are set to be revealed next week. In addition, the province's large food manufacturing sector will likely hold up well this year. However, other factors will counteract these forces. Interprovincial trade (important for Manitoba), will be hurt by the extreme weakness plaguing Alberta and Saskatchewan. What's more, capital spending is poised to plunge this year, as the large-scale Keeyask project winds down.

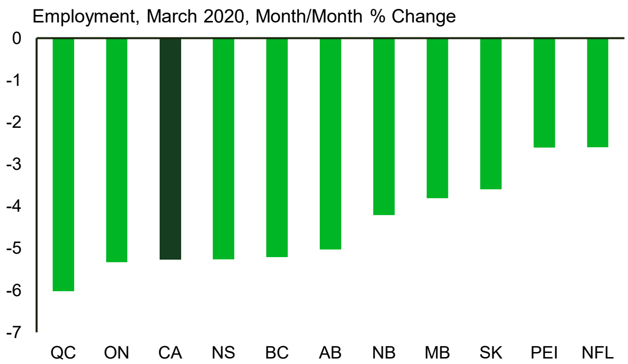
- At the same time, some of the larger provinces are less exposed to the oil shock, but witnessing the largest COVID-19 impacts (Chart 4).
  - **Quebec's** economy is set for a steep decline in output this year, as the pandemic has forced the strictest social distancing measures in the country, hammering early-year activity. As a result, firms in the province are the most pessimistic and job losses were the most severe in March (Chart 5). Looking ahead, the government has communicated a strong desire to re-start the economy and has re-opened select industries in recent weeks, including the automotive repair, landscaping services and mining industries while allowing limited residential construction activities to take place. And, the government will release its plan on how to re-open other parts of economy next week. Schools are also set to open, but physical attendance will not be mandatory. Additional support to Quebec's economy will come courtesy of strong government spending.

Chart 4: Quebec More Impacted, Smaller Provinces Less Impacted by Social Distancing



Source: Google Mobility Reports, TD Economics
*Compares moibility trends for these weeks relative to a baseline period (median value for Jan 3 - Feb 6). Data represents a simple average of retail/recreation, grocery/pharmacy, transit stations, and workplace visits.

Chart 5: Unprecedented Job Losses in March, More Expected to Come



Source: Statistics Canada, TD Economics

- We envision **Ontario's** contraction as coming close to the Canadian rate this year, as manufacturing, retail trade and accommodation and food services lead the list of sectors recording historic contractions. However, the province's jobs market will be buffered by its large financial services industry (where losses are likely to be less severe moving forward). Likewise, efforts to bulk up the healthcare sector through government spending will offset these drags to some extent, as will ongoing construction on critical infrastructure projects.
- **British Columbia** faces modestly better prospects compared to the largest two provinces. The province has made solid progress on its COVID-19 trajectory. B.C. is also more exposed to sectors that are expected to see less of a hit, including the real estate sector and non-residential construction activity. B.C.'s government has also dedicated one of the largest economic support packages and is one of the few provinces to include planned targeted supports to hard-hit sectors (at $1.5 billion). Of course, the province has some downside risks from its outsized exposure to some commodity exports and non-U.S.-bound international trade.

- The Atlantic provinces are likely to see sizeable, but lesser contractions this year.
  - **Nova Scotia** suffered job losses on par with those of Canada in March while mobility data paints the picture of a strict adherence to social distancing measures. These factors, alongside the shuttering of the Northern Pulp mill in January, point to an unprecedented contraction in Nova Scotia's economy this year. However, an ambitious government infrastructure program should help Nova Scotia outperform the rest of Canada.
  - **New Brunswick** is somewhat less exposed to COVID-19 impacts thus far compared to the larger provinces. Recently, the province has reported zero new cases and signaled a potential reopening of the economy. Small business confidence, while still low, remains above the national average, and March's job losses, while still severe, were somewhat less drastic than these seen in the larger provinces.
  - **PEI's** economy looks to have suffered a comparatively mild hit from the COVID-19 outbreak thus far, which will serve it well once restrictions are lifted (the government is targeting early May). Here too, robust infrastructure spending will support growth, helping offset the impact of slower population gains.

Provincial Economic Forecasts						
	Real GDP (% Chg.)			Unemployment Rate (average, %)		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**
National	**1.6**	**-7.5**	**7.3**	**5.7**	**9.4**	**6.0**
Newfoundland & Labrador	2.0	-9.8	4.5	11.9	15.2	12.5
Prince Edward Island	2.7	-4.0	3.9	8.8	10.6	8.3
Nova Scotia	1.2	-5.5	5.8	7.2	10.6	7.9
New Brunswick	0.8	-5.5	5.3	8.0	10.4	8.0
Québec	2.7	-7.8	7.7	5.1	8.9	5.2
Ontario	1.6	-7.1	7.0	5.6	9.0	5.7
Manitoba	1.2	-6.2	6.1	5.3	8.0	5.7
Saskatchewan	0.6	-8.2	6.7	5.4	9.1	6.4
Alberta	0.4	-10.5	7.4	6.9	12.0	8.1
British Columbia	1.7	-6.0	7.6	4.7	8.3	5.2

Source: Statistics Canada, TD Economics. Forecasts by TD Economics as at April 23, 2020.