Provincial Economic Forecast

Provinces to Struggle Under the Weight of Higher Rates

December 19, 2022

Contributing Authors

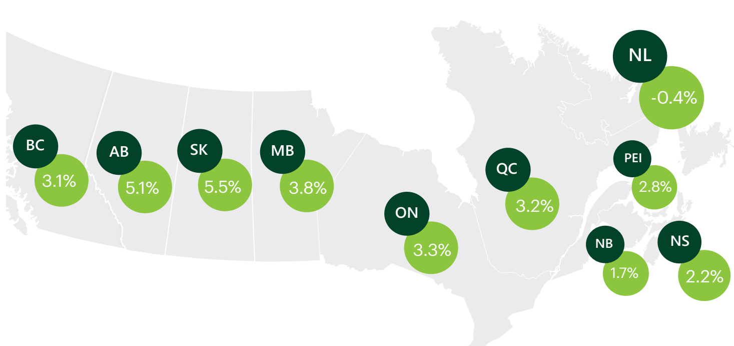
- Beata Caranci, Chief Economist | 416-982-8067
- Derek Burleton, Deputy Chief Economist | 416-982-2514
- Rishi Sondhi, Economist | 416-983-8806

Jump to: BC | AB | SK | MB | ON | QC | NB | NS | PE | NL | Forecast Table

- The Bank of Canada has taken their policy rate even higher than we had assumed in September. This will force a growing financial squeeze on households, creating the conditions for consumer-led slowdowns in economic growth across most provinces. And, although job markets continue to display notable resilience as the year draws to a close, a weaker economic backdrop should force provincial unemployment rates higher in coming months.
- The Prairie provinces are expected to outperform for the second straight year in 2023. An assumed rise in agricultural production owing to this year's bumper harvest should support output in the region. At the same time, oil and natural gas prices should remain elevated, adding another tailwind to the region. On the flipside, relatively large downgrades are incorporated in B.C. and Ontario, in part reflecting further near-term downside for housing markets. However, we think housing should begin to stabilize early next year as bond yields grind lower.
- Households in Ontario, B.C. (and to a lesser extent, Alberta) are also carrying relatively large debt burdens and should therefore be the most sensitive to higher borrowing costs. In contrast, households in the Atlantic Region and Quebec are more protected through their lower debt burdens.
- That said, consumers in several provinces, particularly Newfoundland and Labrador, Quebec, Alberta, and B.C. are poised to benefit from federal and provincial government support measures, including through so-called "inflation relief" cheques. This will help to offset some of the effect of higher interest rates and rising food costs on household budgets.
- Next year's projected slowdowns also reflect a softer backdrop for global growth. Downbeat prospects in Europe should impact exporters in the Atlantic Region, Ontario, and Quebec. Meanwhile, soft U.S. economic growth will hurt shipments coast-to-coast.
- Inflation has eased in every province since June alongside falling oil prices. Next year, we see it grinding lower from coast-to-coast amid healing supply chains and less intense energy inflation. That said, price pressure should remain relatively elevated in B.C. and Ontario – two provinces with large service sectors where inflation tends to be stickier.

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

Provincial Real GDP Growth Forecast (2022)



Source: TD Economics. Forecast as of December 2022.

British Columbia

B.C.'s economy definitively outgrew Canada's for eight straight years through 2021. This impressive feat looks to have run its course this year, although B.C. is still likely to record solid growth. Notable areas of support include government spending, a surge in natural gas production amid elevated prices, and ongoing construction of the Coastal Gaslink Pipeline as part of the LNG Canada megaproject. B.C.'s economy looks to have ended the year in sturdy fashion, with employment tracking a 2.3% annualized gain in October and November compared to the third quarter average. For their part, provincial finances are in good shape, with the government forecasting a $5.7 billion (or 1.5% of GDP) surplus this fiscal year.

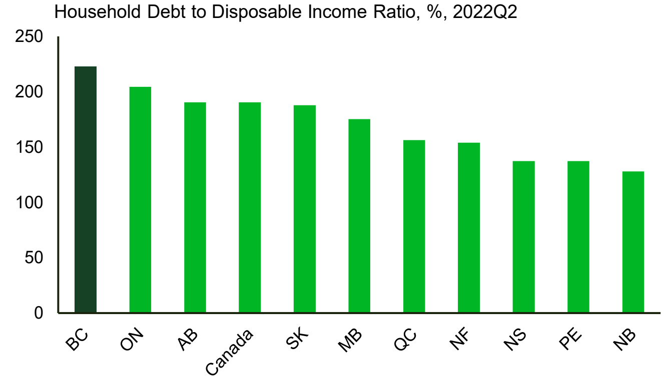
Next year is shaping up to be a much different story, with B.C.'s expansion rate expected to slow more sharply than Canada as a whole. In response, labour demand is set to cool (and push up the unemployment rate), helping reduce the size of the imbalance in B.C.'s ultra-tight jobs market.

Our view for a more outsized slowdown in the province is centered on the fact that households in B.C. are the most highly indebted in the country (Chart 1). The Bank of Canada's rate hiking campaign is thus likely to take a larger toll on household spending. We've already seen some traces of this, as inflation-adjusted retail spending has fallen about 4% so far this year, versus the 2% gain managed for Canada overall. However, some offset will come through measures taken by the province to counteract the impact of inflation on household budgets.

B.C.'s housing market has also proven itself to be relatively sensitive to higher rates, as sales have retrenched by the most of any province in the country (Chart 2). And, as the Bank of Canada takes rates a bit higher in early 2023, we anticipate further outsized sales declines. This will weigh on GDP through residential investment and should also negatively impact consumer demand.

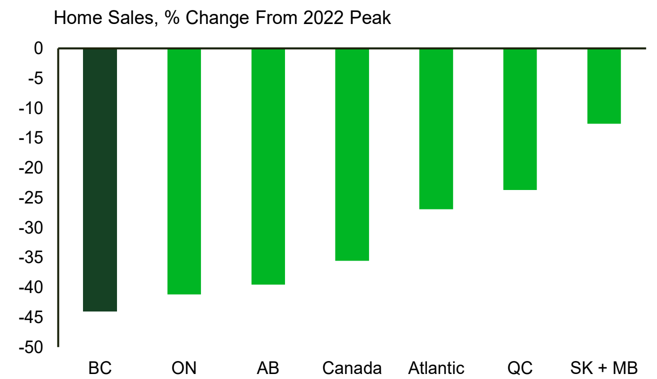
The pace of housing starts is also likely to ease in both Canada and the U.S. next year, weighing on B.C.'s important lumber export industry. In the non-residential sector, investment spending should continue being boosted by the LNG Canada project throughout the forecast horizon, although other large-scale projects, like the Transmountain pipeline expansion and the Site C dam project, will be winding down.

Chart 1: B.C.'s Highly Indebted Households Set to Struggle Under the Weight of Higher Rates



Source: Statistics Canada, TD Economics.

Chart 2: B.C.'s Housing Market Weakness Set to Subtract Signficantly From GDP in 2023



Source: CREA, TD Economics.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.1	0.5	0.3
Nominal GDP	8.3	2.0	2.6
Employment	3.1	0.3	-0.3
Unemployment Rate (%)	4.7	5.1	5.8
Housing Starts (000's)	45.5	37.9	33.8
Existing Home Prices	5.4	-9.7	2.1
Home Sales	-35.3	-22.8	24.8

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

Alberta

We expect Alberta to be near the top of the provincial growth leaderboard in 2022. Since the end of last year, only one province has added more jobs than Alberta in percentage terms (Chart 1), with particular strength displayed in private sector positions. Job growth has been especially notable in the professional, scientific, and technical services industries. In the resources sector, oil production is up 3% through October compared to the same period in 2021, while natural gas production is up 7% by that same count. And, like the other Prairie provinces, agricultural production looks to have bounced back this year after a difficult 2021 plagued by droughts.

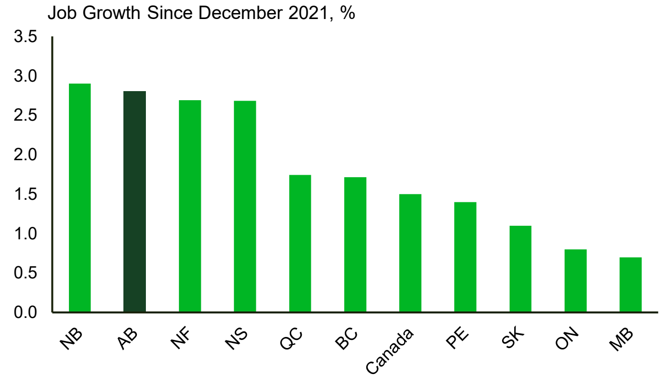
Despite a recent pull-back in WTI prices, we've nudged up our oil price forecast compared to our September projection (Chart 2), factoring in ongoing headwinds to supply and some boost to demand coming from a marginally improved outlook for China. These forces should push WTI back up into the $80-90 per barrel range in the New Year. We also think that natural gas prices will remain relatively elevated, providing support to incomes and production in the province.

Elevated price levels for these key export commodities are consistent with a continued healthy fiscal backdrop in Alberta, after helping to fatten the government's bottom line this year. Indeed, the province's latest fiscal update is projecting a healthy $12.4 billion surplus this fiscal year.

Still, it's unlikely Alberta's economy will manage to buck the trend of sharply slowing economic growth. Households in the province are highly indebted, leaving them vulnerable to rising borrowing costs. Not helping the matter is the fact that real wages in the province have been declining at a near 5% pace amid relatively tepid nominal wage gains. Monthly job growth also cooled considerably in the second half of 2022. Looking ahead to next year, we see Alberta's unemployment rate climbing higher as the economy loses steam.

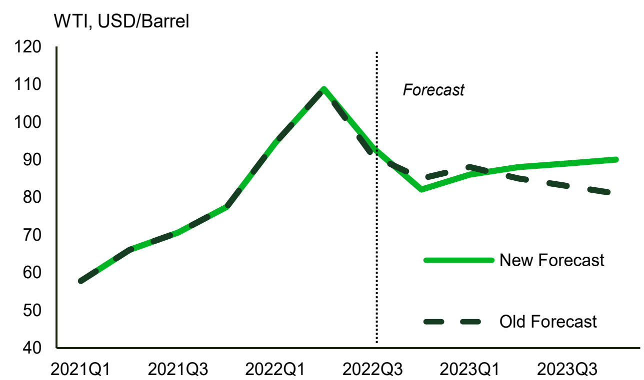
There are forces that should provide somewhat of an offset to these consumer spending headwinds. For one, we expect healthy immigration flows into Alberta, which should underpin solid population growth. In addition, the provincial government has pledged significant "inflation-relief" support to households in the form of cheques, rebates and other measures.

Chart 1: Healthy Job Gains Suggest Robust Economic Growth in Alberta This Year



Source: Statistics Canada, TD Economics.

Chart 2: Upgraded Oil Forecast Points to Additional Support to Incomes and Government Revenues Next Year



Source: Haver Analytics, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	5.1	1.9	0.9
Nominal GDP	22.9	1.3	2.6
Employment	5.0	0.8	0.3
Unemployment Rate (%)	5.7	6.1	6.4
Housing Starts (000's)	38.1	35.4	29.3
Existing Home Prices	4.3	-5.6	3.2
Home Sales	-1.5	-20.9	12.8

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

Saskatchewan

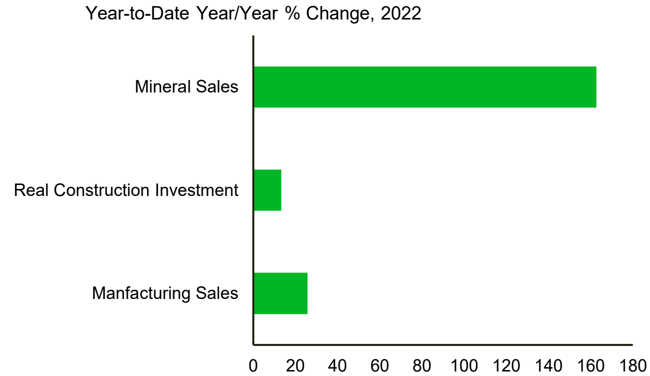
Saskatchewan is on track to record robust expansion this year, as the province continues to work towards filling resource gaps caused by the Russian invasion of Ukraine. In fact, we think that Saskatchewan will lead the pack in terms of real GDP growth, fueled by the goods producing sector which is posting gains in industries such as manufacturing, mining and oil production (Chart 1). The agricultural sector deserves special mention here, with Statistics Canada data pointing to a surge in crop production and farm cash receipts in 2022 following last year's severe drought. Also, note that wheat exports surged in the third quarter. Elsewhere, construction is being boosted by ongoing work on the large-scale Jansen potash mine project and a new canola crushing facility outside of Regina.

Looking ahead to 2023, Saskatchewan probably won't be able to escape the gravitational pull on growth from sharply higher interest rates, especially with inflation-adjusted wages declining at a relatively rapid rate. In addition, households in Saskatchewan are carrying higher debt loads than several other provinces, likely making them more sensitive to the central bank rate hike campaign (Chart 2).

Still, there are a few key factors that should leave Saskatchewan's growth in a better stead relative to its provincial counterparts. For one, housing affordability is still decent by historical standards, leaving Saskatchewan's housing market in a somewhat better position to handle higher interest rates. And indeed, home prices have fallen by a much smaller amount in Saskatchewan than what's been observed for Canada overall. The broader economy is also less levered to housing, which should shield the province from further near-term weakness on that front.

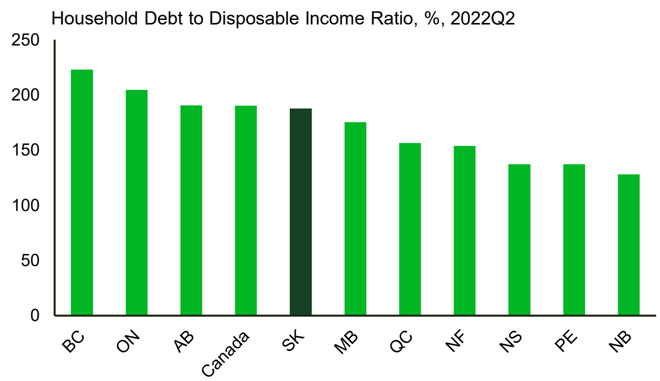
Also on the supportive side, we are assuming that agricultural output will continue to grow in 2023. Although prices for key export commodities like crude oil, potash and wheat are all well down from their summer highs, they remain historically elevated and at levels that are still supportive of incomes, government revenues and production. Spending on energy accounts for a disproportionately large share of the CPI in Saskatchewan. Thus, the moderate relief in energy prices over the past several months has been helping to take some pressure off of household budgets.

Chart 1: Goods Sector Fuelling Robust GDP Growth in Saskatchewan



Source: Statistics Canada, Government of Saskatchewan, TD Economics.

Chart 2: Saskatchewan's Highly Indebted Households Are Likely More Rate Sensitive Than Those in Many Other Provinces



Source: Statistics Canada, TD Economics.

Saskatchewan Economic Forecasts
[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	5.5	1.7	1.2
Nominal GDP	23.8	1.5	3.0
Employment	3.3	0.2	-0.1
Unemployment Rate (%)	4.6	4.8	5.4
Housing Starts (000's)	4.4	4.0	3.6
Existing Home Prices	-0.5	-6.9	3.7
Home Sales	-11.6	-14.0	10.0

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

Manitoba

A bounce-back in agricultural production has Manitoba on track to record outsized real GDP growth this year. Notably, Canadian wheat exports soared in the third quarter. The public sector is also providing a near-term tailwind to job creation and overall economic activity. Indeed, despite the provincial government's projection of only a modest increase in spending this fiscal year, public sector jobs have jumped by 8% compared to their 2021 average.

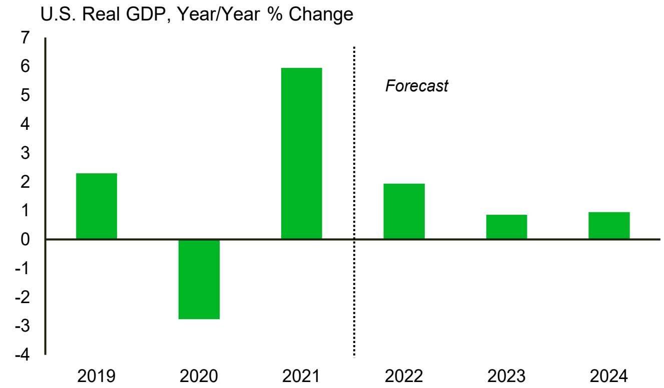
Manitoba is unlikely to buck the trend of a sharp economic slowdown that is expected to grip the country in 2023. Part of this slowdown should come from weaker export shipments and manufacturing activity, as U.S. economic growth is poised to ease considerably in 2023 (Chart 1). Growth in other provinces is also set to moderate, putting the brakes on interprovincial trade. Meanwhile, this year's growth boost to food manufacturing from two new food processing plants is set to fade. On the positive side, we expect stronger shipments of manufactured transportation equipment under the assumption that the input shortages hampering activity in this industry begin to ease, particularly in the back half of next year.

Higher borrowing costs will be the other major drag on growth next year. Having said that, households in the province are carrying smaller debt loads on average than many other parts of the country, implying a more moderate hit to discretionary income and spending due to the rising interest rate environment.

Other factors are expected to yield a moderate growth outperformance in Manitoba relative to the nation as a whole. Firstly, prices for key crops like wheat and canola are projected to remain historically elevated, even as they pullback from astronomical highs seen earlier this year (Chart 2). This, alongside some likely alleviation in input cost pressures, should set the stage for another solid year for agricultural incomes in the province.

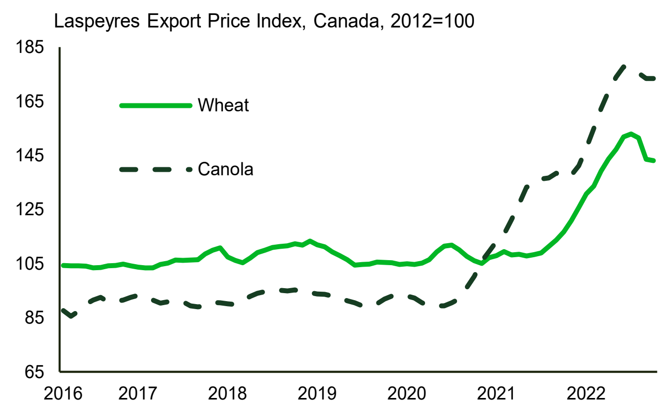
In addition, housing demand in the Keystone province is weathering the impact of higher interest rates much better than other regions, with a smaller drop in sales this year compared to the country overall. We expect this outperformance to persist thanks to a better affordability backdrop in Manitoba than many other places in Canada. This should allow sectors tied to housing, like certain retailers and wholesalers, to hold up relatively well compared to those in many other provinces.

Chart 1: U.S. GDP Poised to Slow Significantly in 2023, Weighing on Shipments from Manitoba



Source: BEA, TD Economics.

Chart 2: Historically Elevated Prices for Key Export Commodities Supporting Incomes in Manitoba



Source: Statistics Canada. TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.8	1.2	0.8
Nominal GDP	10.0	2.2	3.0
Employment	2.4	0.2	0.1
Unemployment Rate (%)	4.6	5.2	5.6
Housing Starts (000's)	7.9	5.8	5.4
Existing Home Prices	6.4	-7.8	2.8
Home Sales	-19.9	-8.3	15.2

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

Ontario

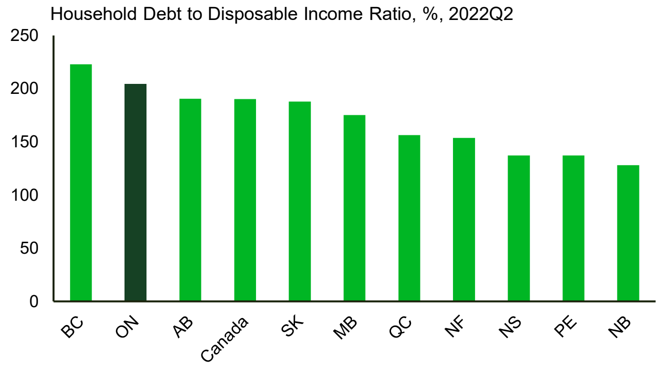
Economic growth in Ontario probably lagged Canada's 2.9% annualized gain in the third quarter. Exports of wheat, crude oil and natural gas were outsized drivers of national growth, which tend to reflect activities in the prairies and other net commodity-producing regions. Meanwhile, shipments of motor vehicles and parts (which largely originate from Ontario) pulled back.

One outcome that Canada and Ontario likely had in common in the third quarter was a decline in household consumption. Ontario's consumers face greater storm clouds than their counterparts in most other regions. Notably, Ontario's households trail only those of B.C. in terms of debt-to-income ratios, which makes them disproportionately sensitive to higher interest rates. This will push debt servicing costs significantly higher through next year, especially as borrowers renew their existing mortgages at higher rates (Chart 1). Ontario's households will also likely feel the burden of stickier inflation more than most other regions in Canada. This is due Ontario's services-oriented economy and the fact that service inflation tends to be more persistent.

There are some offsetting factors that should keep consumption from suffering a sharp and sustained retreat. Labour markets remain tight and growth in employee compensation is robust. In addition, Ontario's households have considerable excess savings which can be deployed to offset the headwinds that households are facing. Automotive supply chains should also improve next year, which should support production and feed pent up demand for autos. Population growth is also likely to be robust in 2023 on the back of immigration. However, a nuance to Ontario's population growth story has been interprovincial migration. Ontario has been losing people to other provinces at a record pace (Chart 2) due to poor housing affordability and the ability to remote work. Moving forward, we think this trend is due for some turnaround as remote working is further reigned in.

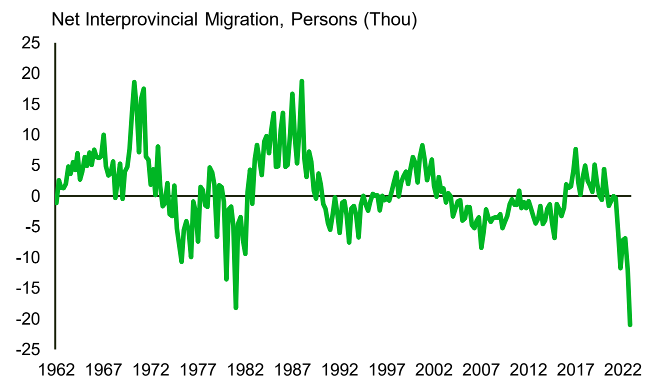
Ontario has also been at the centre of Canada's housing market correction, with the province recording some of the steepest home prices declines of any market in the country. Prices should be pressured down further over the next few months as the impact of rate hikes pushes home sales to lows not consistently seen since the early 2000s.

Chart 1: Ontario's Indebted Households Vulnerable to Higher Rates



Source: Statistics Canada, TD Economics.

Chart 2: Ontario is Losing People to Other Provinces at a Record Pace



Source: Statistics Canada, TD Economics.

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.3	0.3	0.2
Nominal GDP	9.3	2.5	2.6
Employment	4.2	0.0	0.0
Unemployment Rate (%)	5.7	6.5	7.0
Housing Starts (000's)	93.0	86.5	82.5
Existing Home Prices	4.5	-11.4	1.7
Home Sales	-32.7	-15.5	24.4

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

Québec

Our prior forecast anticipated a slowdown in Quebec's economic growth starting in the second half. That projection is materializing, as monthly GDP data on hand is pointing to a third quarter contraction in real GDP. Last quarter, output was weighed down by declining activity in construction, manufacturing, real estate and healthcare. The province should avoid two straight quarters of contraction, however, as hours worked and employment are both higher so far in the fourth quarter, making a modest positive growth print likely.

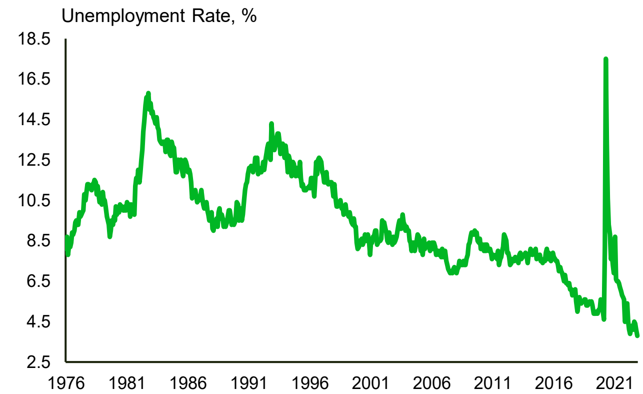
Quebec's jobs market remains historically tight, which means that finding suitable labour continues to be a challenge for employers. The province's unemployment rate dropped to 3.8% in November (Chart 1), with slow population growth restraining labour supply. This marks the lowest rate on record for the province. Moving forward, we expect a notable rise in Quebec's unemployment rate as labour demand is cooled by sub-trend economic growth. This suggests some relief to the sizeable imbalance in Quebec's jobs market is forthcoming.

Manufacturers have enjoyed a solid year so far, with nominal sales up 17% through September, compared to their 2021 average. Next year the outlook is gloomier for this key industry. Weaker economic growth in the U.S. is expected to dampen provincial exports, while demand for air travel will likely be dented by higher interest rates, as consumers dedicate a growing portion of their incomes to debt servicing. This will impact Quebec's key aerospace manufacturing sector.

Rising borrowing costs will likely cause a broader-based slowdown in consumption next year. That said, a few factors make us reasonably confident that households in Quebec can weather the storm better than many other provinces. First, their savings rate is extremely high (Chart 2), suggesting that households hold a cushion that can be drawn upon to support required spending. In addition, wage growth remains robust. Households in Quebec are also not as indebted as other provinces, making their sensitivity to higher rates comparatively lower. Finally, the government has rolled out a significant dose of stimulus to households in the form of inflation relief payments and the price tag for this support amounts to hefty 0.9% of GDP.

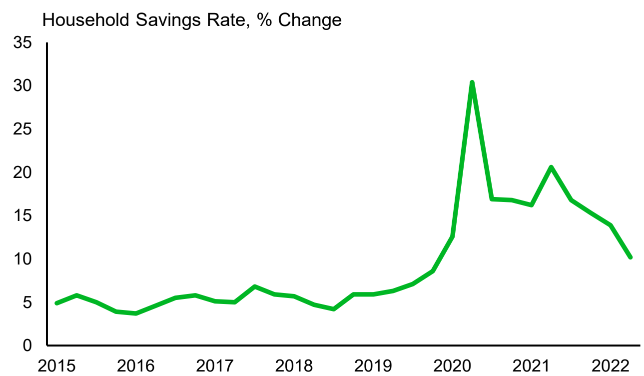
According to the fall fiscal update, the government expects to run a $1.9 billion deficit in FY 2022/23, while net debt-to-GDP continues its downward trek.

Chart 1: Québec's Historically Tight Jobs Market an Impediment to Production



Source: Statistics Canada, TD Economics.

Chart 2: Elevated Savings Offering Some Offset to the Headwinds Facing Households in Québec



Source: Government of Québec, TD Economics.

Québec Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.2	0.4	0.3
Nominal GDP	8.3	2.3	2.8
Employment	2.5	0.2	-0.5
Unemployment Rate (%)	4.3	5.0	5.6
Housing Starts (000's)	60.5	48.6	44.1
Existing Home Prices	8.6	-7.4	2.7
Home Sales	-20.0	-15.6	12.1

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

New Brunswick

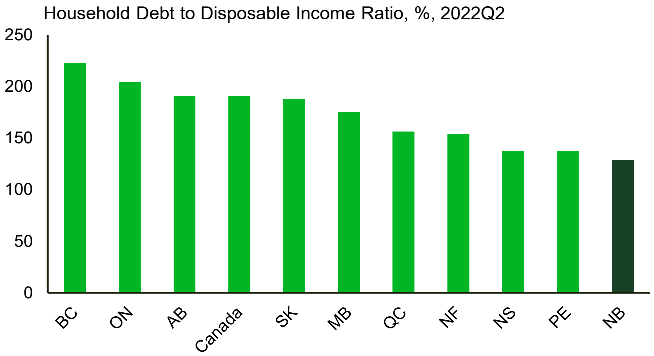
After recording a near 6% gain in 2021, New Brunswick's economy is set to grow at around one-quarter of that rate this year. Employment has been holding up comparatively well, supported by a pick up in private-sector hiring. The government has also joined the hiring fray, with public sector employment jumping 4% from last year's average level. This is consistent with the latest provincial fiscal update calling for 7% gain in total spending this fiscal year. The performance of the public sector is normally very important for New Brunswick as it accounts for about 30% of the province's GDP. Notably, other details of the province's fiscal update were positive. Indeed, New Brunswick is forecasting a $774 million surplus this fiscal year. As a proportion of GDP, this works out to about 1.7% - the highest share in several decades.

Manufacturers have also enjoyed a solid year, with nominal sales up 34% compared to their 2021 average through September, driven by surging shipments of petroleum products. The outlook is murkier however, given what should be a significant slowdown in U.S. economic growth. What's more, the outlook for other provinces has been downgraded, including Quebec which is New Brunswick's largest provincial export destination.

Next year, growth will be further impacted by higher interest rates, which should weigh on consumption, investment and housing market activity. On the latter front, note that average home prices have already dropped significantly from their 2022 peak amid falling sales. Weaker housing demand has bled into the retail sector, evidenced by softening sales in industries-tied to housing this year.

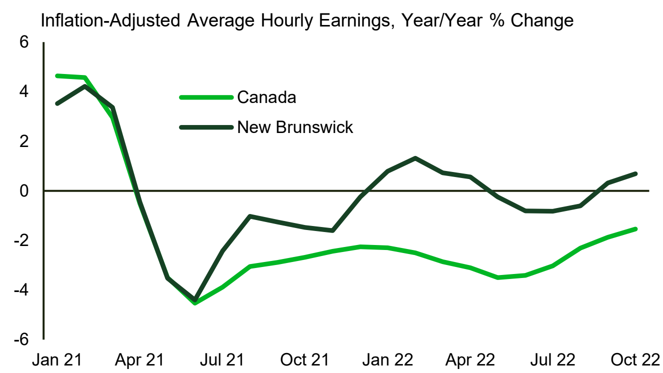
However, there are some factors that should soften the blow of higher borrowing costs on consumption in the province. For one, population growth is running at its fastest pace since 1971. And, although a big part of this is interprovincial migration, which is likely to cool, ongoing strong international inflows should keep population growth expanding at a sturdy pace. Another important consideration is that households in New Brunswick are carrying the lowest debt burdens (by far) of any province in the country (Chart 1). This should help insulate them from higher interest rates to a degree. And, inflation-adjusted wage growth is running at the fastest pace in Canada by some measures, even if the pace of wage gains poised to slow next year as unemployment creeps higher (Chart 2).

Chart 1: New Brunswick's Households Carrying the Lowest Debt Burden of Any Province



Source: Statistics Canada, TD Economics

Chart 2: Wage Growth Holding Up Much Better in New Brunswick



Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	1.7	0.5	0.4
Nominal GDP	5.7	1.9	2.2
Employment	2.2	0.8	-0.4
Unemployment Rate (%)	7.3	7.8	8.3
Housing Starts (000's)	4.4	2.3	2.1
Existing Home Prices	16.5	-11.3	1.0
Home Sales	-20.6	-16.1	15.2

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

Nova Scotia

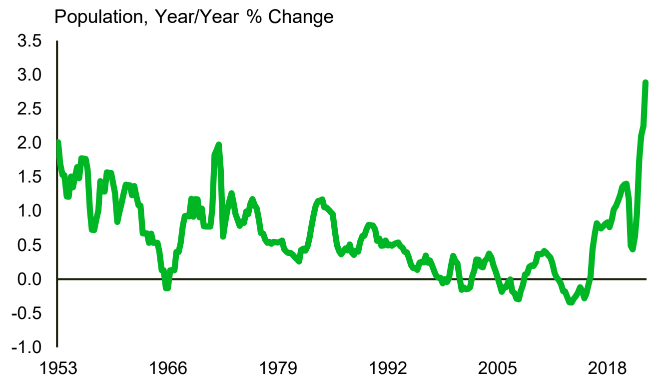
We are forecasting a 2.2% gain for Nova Scotia's real GDP this year, marking a solid showing for the province, especially on the heels of the scorching 6.2% gain recorded in 2021. The construction industry has made a notable contribution to growth this year. Indeed, building construction is up 8% through September compared to its 2021 average, while engineering construction is being stoked by the province's record capital spending plan which includes massive outlays on healthcare projects like the redevelopment of the QEII Health Sciences Centre and the large-scale project in Cape Breton. Nova Scotia's professional, scientific, and technical services industry also continues to thrive, as evidenced by a 10% swelling in headcounts in the year through November, compared to 2021's levels.

Like all other provinces in the Atlantic, Nova Scotia continues to undergo a population boom (Chart 1), supporting firm growth in labour supply. This surge is being fueled by robust levels of interprovincial migration, new migrants from other countries and a massive influx of non-permanent residents. We think this rapid population growth will continue to boost domestic demand and should help keep growth close to 1% next year, allowing Nova Scotia to outperform larger provinces like Ontario, B.C., and Quebec. Rebuilding efforts from the devastating impacts of Hurricane Fiona will also lift growth in 2023.

Like other provinces in the Atlantic, Nova Scotia's households have a lower debt burden on average, making them less interest rate sensitive than other parts of the country. However, we see more downside for average home prices in Nova Scotia than the rest of Canada in early 2023. This is the other side of the near 70% run-up in average home prices observed during the pandemic, which severely eroded affordability conditions in Nova Scotia.

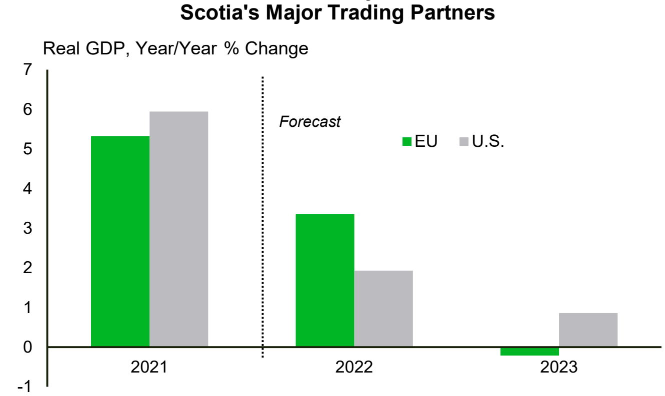
It's been a mixed bag for Nova Scotia's manufacturing industry this year. On the one hand, nominal sales are up 8% compared to their 2021 average through September. However, much of this gain is likely price-related, leaving volumes significantly weaker. Note that export values are flat in the province's important tire manufacturing industry, weighed down by weakness in North American automotive production. Manufacturing activity should remain subdued next year as well (Chart 2), amid weaker growth in the U.S and Europe (Nova Scotia sends about 10% of its exports to the EU).

Chart 1: Nova Scotia's Population Growth Continues to Boom, Supporting Domestic Activity



Source: Statistics Canada, TD Economics. Last observation: 2022Q3.

Chart 2: 2023 Growth Likely to be Weak in Nova Scotia's Major Trading Partners



Source: Haver Analytics, TD Economics.

Nova Scotia Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2022	2023	2024
Real GDP	2.2	0.8	0.7
Nominal GDP	8.4	2.8	3.0
Employment	3.3	0.2	-0.3
Unemployment Rate (%)	6.6	7.1	7.7
Housing Starts (000's)	5.6	5.5	5.3
Existing Home Prices	13.3	-12.2	1.5
Home Sales	-22.0	-20.1	13.6

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

Prince Edward Island

Released in early November, the provincial expenditure accounts revealed that PEI grew by nearly 8% last year, which was even stronger than we had previously expected. Population growth was a major contributor, as it offered significant support to consumption. And it remains perhaps the dominant storyline on the Island, running at its fastest annual pace on record at the start of the third quarter (Chart 1). This trend - alongside solid growth in the manufacturing sector and government spending - has been supporting what should be a firm outturn for PEI's GDP in 2022.

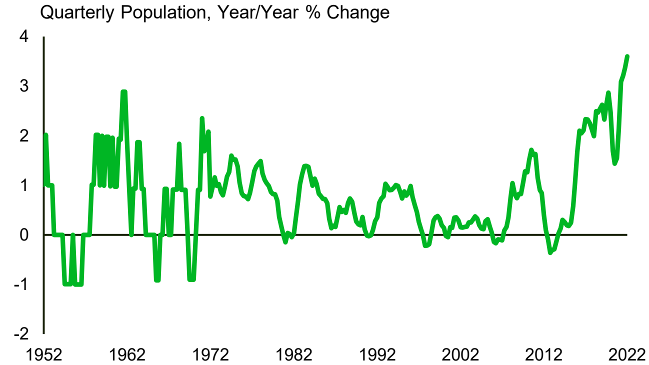
Part of PEI's population surge can be put down to a powerful stream of migrants from other provinces. Even if this channel were to cool moving forward as we expect, ongoing robust immigration into the country should help to keep population growth running at a relatively solid clip in the coming quarters.

The benefit of rising population to spending and housing demand should help to at least partially counterbalance the negative impact on activity from to higher interest rates and a softening in U.S. economic conditions. Job growth has slowed in recent months, but is coming off an unsustainable gain of nearly 7% for the full year.

As such, we have upgraded the near-term growth forecast relative to the September projection. Part of this can be put down to rebuilding efforts in the wake of Hurricane Fiona, which had devastating impacts for the Island. However, a larger part of this upgrade stems from the province's recently-released capital budget, which envisions some $265 million in additional spending from 2022-2024 compared to last year's plan (Chart 2).

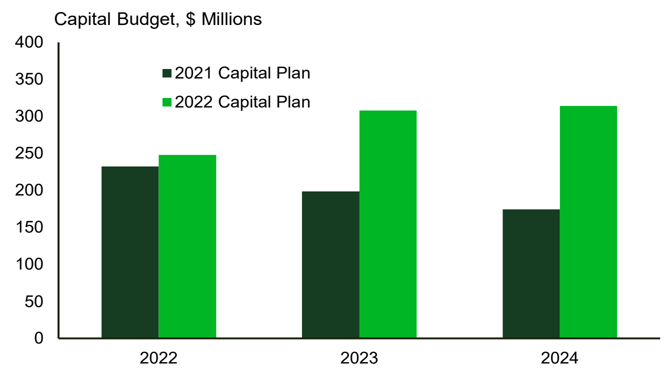
Beyond of these factors, our forecast also incorporates the fact that households in PEI are among the least indebted in Canada, which should reduce their sensitivity to higher rates. Also, according to our calculations over 80% of PEI's inflation has been driven by factors sensitive to external or supply chain developments, like food and energy prices. With supply chains healing and energy prices expected dip next year, inflation on the Island should cool considerably from the near 9% rate averaged so far in 2022. This should help relieve pressure on household incomes.

Chart 1: Record Population Growth Boosting Economic Activity on the Island



Source: Statistics Canada, TD Economics.

Chart 2: Significant Upgrade to Capital Plan Supports Upward Revision to 2023 Growth Forecast for PEI



Source: PEI Government, TD Economics.

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	2.8	1.3	1.2
Nominal GDP	10.5	3.5	3.6
Employment	6.3	-0.6	-0.4
Unemployment Rate (%)	7.4	8.1	8.9
Housing Starts (000's)	1.0	1.1	1.1
Existing Home Prices	12.9	-10.7	1.3
Home Sales	-19.2	-21.8	21.9

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

Newfoundland & Labrador

2022 has a very challenging year for Newfoundland and Labrador's economy. Indeed, the province appears headed for a mild contraction, the first outside of the pandemic since 2018. It's been a struggle for the goods producing sector, with inflation-adjusted building construction spending down 6% compared to its 2021 average through September. In addition, both manufacturing and mining activity have declined, with lower prices for iron ore (a key export commodity for the province) not helping. However, the largest headwind has been oil production, which tumbled 13% from January-October compared to the same period in 2021 (Chart 1). In this sector, production in the Terra Nova oilfield has been temporarily shut down, as the vessel which gathers, stores and offloads oil from the field has been sent to Spain for an extensive overhaul to extend its life.

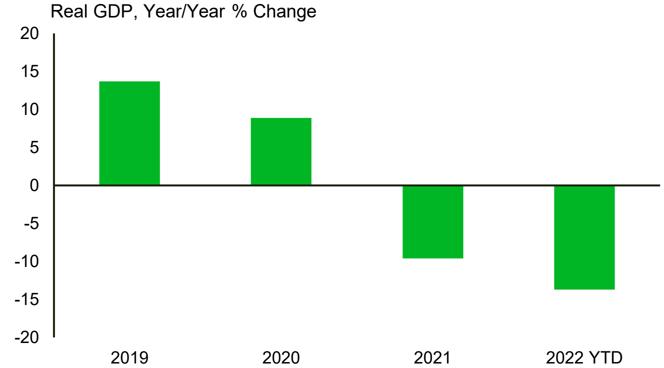
On the opposite end of the spectrum, healthy growth in the services sector (where employment has increased by over 4% from Jan-October compared to its 2021 average) has prevented an even steeper slowdown.

Fortunately, 2023 should turn out to be much better from a growth perspective for Newfoundland and Labrador. For one, the Terra Nova oil field will resume production. Also, the large-scale West White Rose offshore oilfield expansion should resume. Oil sector prospects are brighter over the medium term thanks to the Bay du Nord project's release from environmental assessment.

We estimate that the recent inflation relief measures doled out by the government to households will go a long way towards offsetting the drag on consumption posed by higher interest rates. What's more, inflation itself is likely to cool considerably. Based on our calculations, nearly all the inflation experienced in Newfoundland and Labrador has been influenced by external or supply driven sources, notably energy prices, and this type of inflation pressure is likely to reduce meaningfully in 2023 (Chart 2).

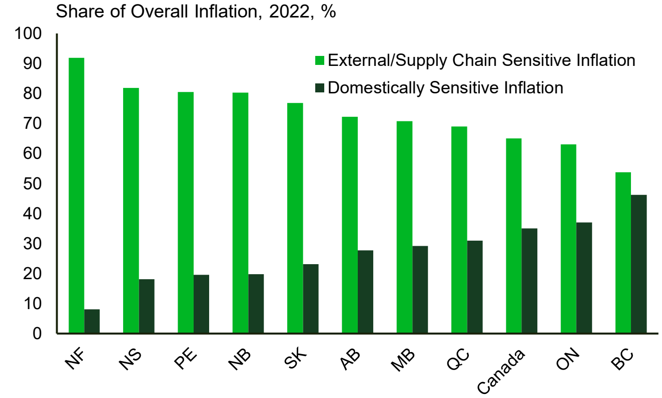
In addition to these factors, population growth is trending at its fastest pace in over a decade. This is supporting home sales – which remain elevated – and should lift domestic demand more broadly. Housing markets remain tight in Newfoundland and Labrador, driving positive price growth. Note that since February when Canadian home prices began their correction, average home prices have increased 6% in Newfoundland and Labrador. This has been backstopped by some of the best affordability conditions in the country.

Chart 1: Oil Production a Huge Drag on Newfoundland and Labrador's Growth This Year



Source: Newfoundland and Labrador Government, TD Economics

Chart 2: Inflation at the Whim of External Developments in Newfoundland and Labrador



Source: Statistics Canada, TD Economics.

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	-0.4	1.3	1.2
Nominal GDP	10.6	0.8	3.0
Employment	3.6	-0.4	-0.9
Unemployment Rate (%)	10.9	12.0	13.1
Housing Starts (000's)	1.6	1.1	1.1
Existing Home Prices	6.4	-1.0	3.2
Home Sales	-8.9	-17.4	10.1

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

Provincial Economic Forecasts

Provincial Economic Forecasts																		
Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2022F	**2023F**	**2024F**	**2022F**	**2023F**	**2024F**	**2022F**	**2023F**	**2024F**	**2022F**	**2023F**	**2024F**	**2022F**	**2023F**	**2024F**	**2022F**	**2023F**	**2024F**
National	**3.5**	**0.7**	**0.4**	**11.3**	**2.1**	**2.7**	**3.6**	**0.2**	**-0.2**	**5.3**	**5.9**	**6.5**	**262.0**	**228.2**	**208.3**	**0.6**	**-10.7**	**3.9**
Newfoundland & Labrador	-0.4	1.3	1.2	10.6	0.8	3.0	3.6	-0.4	-0.9	10.9	12.0	13.1	1.6	1.1	1.1	6.4	-1.0	3.2
Prince Edward Island	2.8	1.3	1.2	10.5	3.5	3.6	6.3	-0.6	-0.4	7.4	8.1	8.9	1.0	1.1	1.1	12.9	-10.7	1.3
Nova Scotia	2.2	0.8	0.7	8.4	2.8	3.0	3.3	0.2	-0.3	6.6	7.1	7.7	5.6	5.5	5.3	13.3	-12.2	1.5
New Brunswick	1.7	0.5	0.4	5.7	1.9	2.2	2.2	0.8	-0.4	7.3	7.8	8.3	4.4	2.3	2.1	16.5	-11.3	1.0
Québec	3.2	0.4	0.3	8.3	2.3	2.8	2.5	0.2	-0.5	4.3	5.0	5.6	60.5	48.6	44.1	8.6	-7.4	2.7
Ontario	3.3	0.3	0.2	9.3	2.5	2.6	4.2	0.0	0.0	5.7	6.5	7.0	93.0	86.5	82.5	4.5	-11.4	1.7
Manitoba	3.8	1.2	0.8	10.0	2.2	3.0	2.4	0.2	0.1	4.6	5.2	5.6	7.9	5.8	5.4	6.4	-7.8	2.8
Saskatchewan	5.5	1.7	1.2	23.8	1.5	3.0	3.3	0.2	-0.1	4.6	4.8	5.4	4.4	4.0	3.6	-0.5	-6.9	3.7
Alberta	5.1	1.9	0.9	22.9	1.3	2.6	5.0	0.8	0.3	5.7	6.1	6.4	38.1	35.4	29.3	4.3	-5.6	3.2
British Columbia	3.1	0.5	0.3	8.3	2.0	2.6	3.1	0.3	-0.3	4.7	5.1	5.8	45.5	37.9	33.8	5.4	-9.7	2.1

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at December 2022.