Provincial Economic Forecast

Interest Rates are Biting but Provinces are Fighting

December 19, 2023

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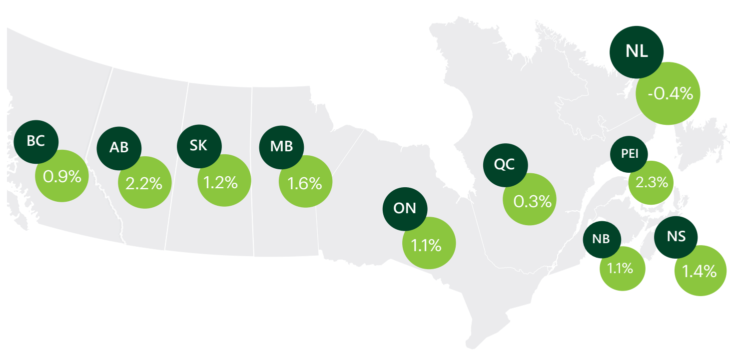
- The Q3 downside growth surprise has led us to downgrade both our 2023 and 2024 national annual average growth forecasts. Exports and consumption drove the downgrades and will likely disproportionately impact Quebec, Manitoba, B.C. and Nova Scotia. Even with these changes, relative growth rankings are mostly unchanged from our prior forecast. We still anticipate 2023 outperformances across the Prairies while, B.C., Quebec and Newfoundland & Labrador are set to lag.
- Recently released fiscal updates reveal that provincial governments are in a worse financial position than previously thought. Higher-than-expected expenses have driven an increase in the combined FY 2023/24 deficit to about $9.7 billion (0.3% of GDP), representing a $5 billion deterioration relative to budget estimates. Net debt-to-GDP positions are also upgraded, although the outlook for falling borrowing rates will ease pressure on debt servicing costs. We estimate little in the way of economic stimulus from the plans, which is helpful from an inflation-fighting perspective.
- Housing market conditions have deteriorated more markedly in Ontario and B.C. relative to other regions. Loose conditions should prompt price discounting in Ontario and B.C, while modest gains are recorded elsewhere (on average). Markets across Canada will receive a considerable shot in the arm next year from Bank of Canada rate cuts. Accordingly, prices should be growing across all markets in the second half of 2024.
- Labour force growth has outpaced what would historically be considered solid job creation across most provinces in 2023. As labour market tightness continues to unwind, we see adjustments across provinces taking place at various speeds. B.C. and Ontario have seen unemployment rates rise quickest from last year's troughs, while job markets are still tight in Alberta and Saskatchewan. Robust population growth will remain a theme heading into 2024.
- Commodity-producing provinces are still in the best position to weather growth headwinds moving forward. The volatility in crude oil markets has also ratcheted up in recent months as markets try and reconcile complex supply-demand cross-currents. However, 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 regions.

Provincial Real GDP Growth Forecast (2023)



Source: TD Economics. Forecast as of December 2023.

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

British Columbia

British Columbia's (B.C.) 2023 real GDP forecast has been shaved by 0.3 percentage points (ppts) to 0.9%. This puts the province on track to undershoot national performance for the first time in 10 years. The ratcheting back in prospects largely reflects a sharper-than-expected softening in both the resale housing market and consumer spending since the mid-way point of this year. We expect the slight underperformance in B.C.'s economy–both relative to the nation and its historical trend–to persist in 2024.

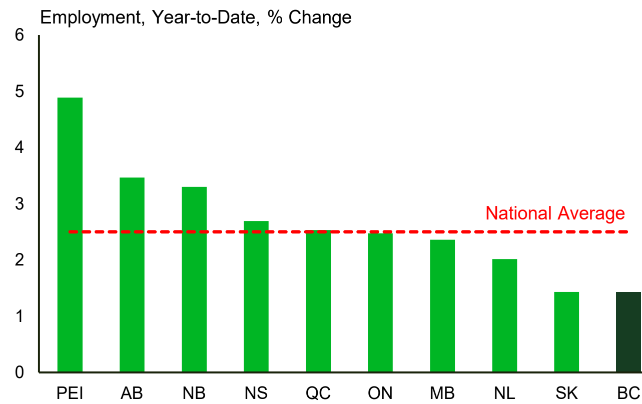
The additional interest rates delivered by the Bank of Canada (BoC) earlier this year have had visible negative impacts on B.C.'s economy. Since July, residential home sales have slipped nearly 25%, the biggest decline across all provinces. Looking ahead, we see little scope for the resale market to gain traction until mid-2024, when lower borrowing rates should begin to rekindle activity. Existing home prices should see some softening until the mid-year mark before beginning their upward ascent.

A more pronounced slowing in B.C.'s labour market have had consumers moving forward with caution. Job growth in the Jan.–Nov. period slowed to a modest 1.5% y/y, well below the national pace (Chart 1) while retail spending adjusted for inflation is set for a decline of around 2–3% this year. The spending pullback has helped inflation decelerate to a sub-3% range, which has mildly reduced pressure on household affordability. Relative to incomes however, B.C. households remain the most indebted in the nation, which will continue to limit near-term growth prospects.

B.C.'s merchandise exports have trended downward on the back of weaker global demand and lower prices for key commodities. This has pushed export values to around 16% below the same period last year. B.C. ports, handling nearly 25% of trade, were impacted in July as prolonged port strikes halted the movement of key goods to external trading partners. The outlook for B.C.'s trade is mildly improved for next year and may get a marginal lift from the recently announced fiscal stimulus out of China (Chart 2).

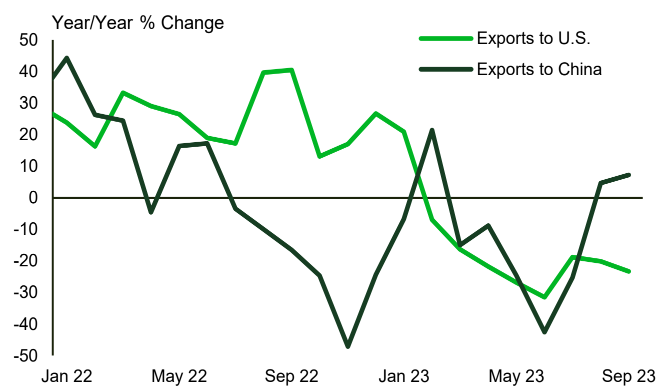
On the bright side, B.C.'s government finances remain relatively stable. This is despite some slight fiscal deterioration reported in the mid-year fiscal update relative to Budget 2023. B.C. continues to sport one of the lowest debt burdens among the provincial governments, which provides some fiscal leeway in the event that economic storm clouds worsen.

Chart 1: British Columbia's Labour Market Is Slowing



Source: Statistics Canada, TD Economics.

Chart 2: B.C. Exports Are Softening, but Chinese Demand Could Provide Some Offset



Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	0.9	0.3	1.8
Nominal GDP	2.3	3.1	4.0
Employment	1.5	0.7	0.6
Unemployment Rate (%)	5.1	6.1	6.1
Housing Starts (000's)	51.2	46.3	42.3
Existing Home Prices	-1.4	-0.9	2.2
Home Sales	-9.1	0.3	19.6

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. The province will still benefit from a supportive commodities backdrop, durable population gains, and relative housing affordability, but the impulse from these tailwinds will start to fade into next year. With real GDP forecasted at 2.2% in 2023 and 1.4% in 2024, Alberta keeps its spot near the top of the provincial growth charts.

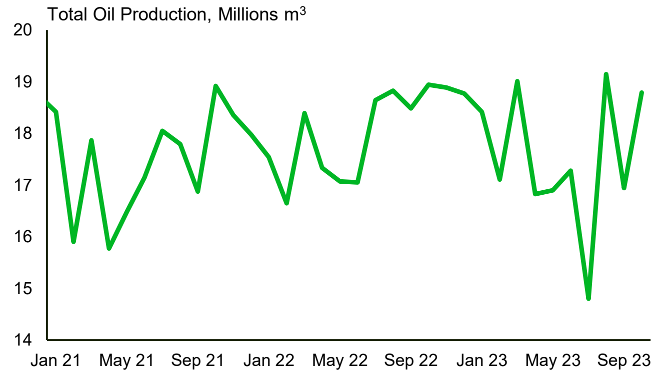
The impacts of wildfires and shutdowns for maintenance earlier this year temporarily stunted activity in Alberta's oil sector. But the production rebound since July has been swift, as expected, (Chart 1) and positions the energy sector to advance at a modest pace this year. The stage is also set for a solid showing in 2024, especially as the Trans Mountain Pipeline is slated to be operational by the midway point of the year. The extension will nearly triple export capacity out of the region and unlock access to new international markets.

The Alberta government kept its estimate for WTI at $79 /bbl for the year in its mid-year fiscal update, while forecasting a narrower spread for the WTI-WCS differential at $17 (previously $19.50). These projections are reasonable, even in the wake of oil price volatility that has seen prices dip to around the $70/bbl level in recent weeks. Non-renewable resource revenues continue to drive improvements in the budget balance and the outlook for prices to hold within the US$70-$80 range in the near-term is still supportive of healthy public finances.

Outside of oil and gas, investment in non-residential building construction is gaining momentum despite higher borrowing costs. Similar momentum is taking place on the residential side, led by an impressive 35% increase in housing starts since April. Relatively tight resale markets will be instrumental in driving another year of outsized residential investment gains in 2024 (Chart 2).

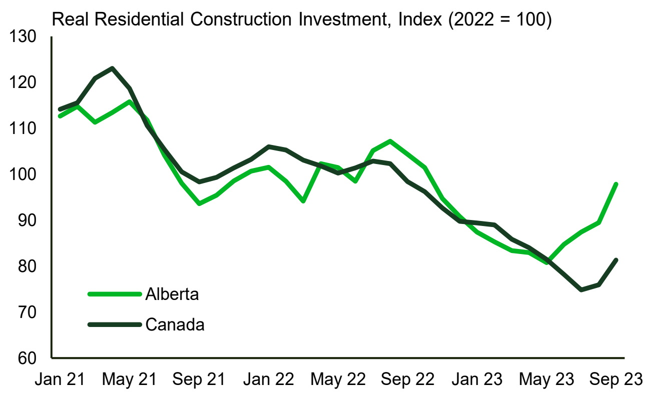
Elevated population growth this year has added significant fuel to the province's economic expansion. Alberta is likely to remain a magnet for many international and domestic newcomers in light of its relatively affordable housing market and prospects for continued economic outperformance. However, we still anticipate some moderation in domestic conditions as gains in the overall headcount and job creation slow from 2023's unsustainable pace, while the highly indebted consumer-base will continue to feel the pinch from this year's run-up in interest rates.

Chart 1: Alberta's Oil Production Bounces Back After Wildfires and Maintenance This Year



Source: Alberta Energy Regulator, TD Economics.

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



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	2.2	1.4	1.8
Nominal GDP	-1.3	4.4	3.7
Employment	3.5	1.4	1.0
Unemployment Rate (%)	5.8	6.3	6.4
Housing Starts (000's)	34.4	33.3	31.4
Existing Home Prices	1.4	5.1	3.6
Home Sales	-9.1	10.8	5.5

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

Saskatchewan

Saskatchewan's economy appears to be falling short of our early-year expectations that had it topping the provincial leaderboard for the second straight year in 2023. Key commodities, namely wheat and potash, have had a difficult stretch. And while job growth has been solid, it has been lagging the nation. At 1.2%, real GDP growth for 2023 is estimated to be still slightly above the national level, but it marks a hefty step back from the blistering 6.0% pace in the year prior. For 2024 and 2025, Saskatchewan's GDP gains are expected to slightly exceed the national average.

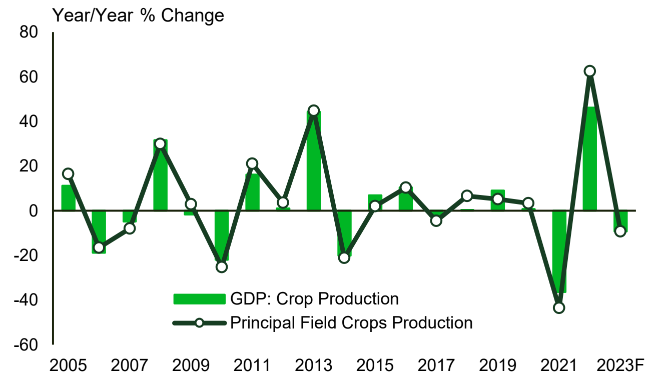
Unfavourable growing conditions could see Saskatchewan's principal crop production fall by around 10% this year according to Statistics Canada's most recent estimates (Chart 1). While disappointing, this still marks an improvement from the expectation of a near 20% pullback in yields earlier in the growing season. A levelling out in Chinese growth next year should provide some support to agricultural export activity while less volatile weather conditions will hopefully aid a rebound in production.

Potash prices are down a substantial 50% since peaking in the spring of 2022. This didn't bode well for overall potash sales, which are tracking a contraction this year. Other major global producers, namely Russia and Belarus, are also gobbling up market share as shipments to major consumers have picked up in recent months. On a positive note, BHP announced its plan to go ahead with its $6.4 billion in spending to build the second stage of its Jansen mine, bolstering the medium-term outlook for investment and jobs.

Elsewhere, uranium prices continue to notch record highs, underpinning output at the Cigar Lake and McArthur River mines. Total uranium production is up a staggering 52% year-to-date (Chart 2) with further increases on tap in 2024. Oil sector prospects also remain relatively bright. WTI crude prices are expected to hold in the healthy $70-$85 range over the next few years, and oil production is projected to notch moderate gains over the medium-term.

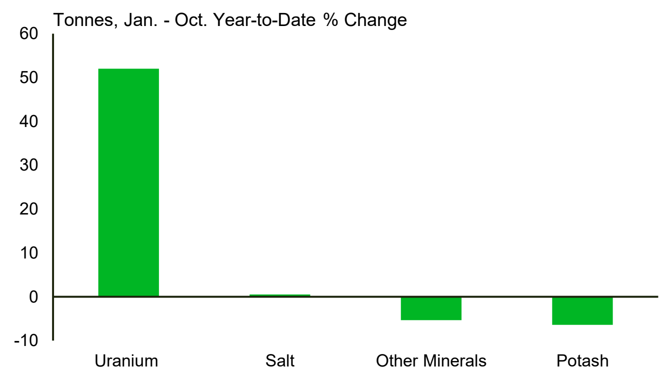
Although employment growth has lagged this year, Saskatchewan continues to boast the highest job vacancy rate and lowest unemployment rate across provinces. This suggest some degree of lingering tightness that will buoy employment gains into next year and support aggregate spending. Given its commodity bent and relatively low household debt burden, Saskatchewan is less exposed to the ongoing impacts of elevated interest rates.

Chart 1: Poor Crop Yields Will Drag Down Saskatchewan's 2023 GDP Growth



Source: Statistics Canada, TD Economics.

Chart 2: Saskatchewan's Uranium Production Skyrocketing As Prices Notch Record-Highs



Source: Ministry of Energy and Resources, TD Economics.

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

Economic Indicators	2023F	2024F	2025F
Real GDP	1.2	1.2	1.5
Nominal GDP	-0.9	3.8	3.2
Employment	1.7	1.6	0.9
Unemployment Rate (%)	4.8	5.5	5.6
Housing Starts (000's)	4.5	4.3	4.6
Existing Home Prices	0.0	3.1	4.2
Home Sales	-3.5	7.1	9.6

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

Manitoba

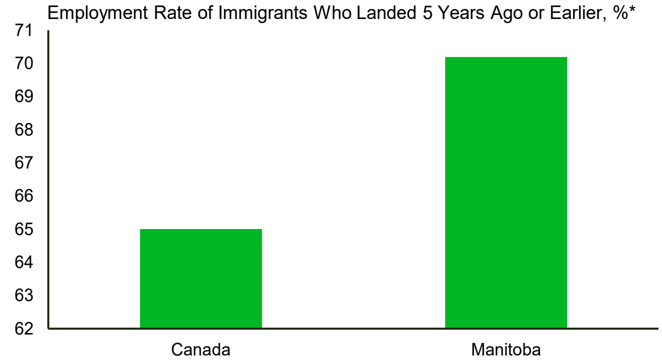
The near 2% gain expected for Manitoba this year is somewhat of a letdown, given the context of a tepid recovery from the pandemic posted by the province through 2022. The agricultural sector is weighing on the overall economy this year, with declining production for key crops like canola amid dry conditions. Meanwhile, construction is being dragged down by higher rates and some normalization in the industrial sector after several years of record building related to large-scale food processing plants. On the flipside, government spending is offering a lift to growth, evidenced by hiring gains in public sector industries.

Our internal card data suggests that household spending growth in Manitoba has displayed some resilience so far this year – in line with Canadian trends – supported by job gains and solid immigration. Notably, employment rates for recent immigrants tend to be relatively high in Manitoba (Chart 1), helping the province maintain the highest newcomer retention rate outside of the "Big 4" provinces. Consumers are also benefitting from provincial tax relief and the recently elected NDP government has pledged more of the same, with the provincial fuel taxes set to be temporarily lifted starting in 2024. However, the promised freeze in hydroelectric rates may be delayed. The new government has also inherited a more challenging fiscal situation, with the FY 2023/24 deficit projection revised up to a hefty $1.6 billion (1.8% of GDP), and net debt-to-GDP elevated at 37.1%.

Even with tax relief, consumption growth is likely to soften over the next year, weighed down by still-elevated borrowing costs, especially as households in Manitoba are carrying the fourth highest debt-load in the country (Chart 2).

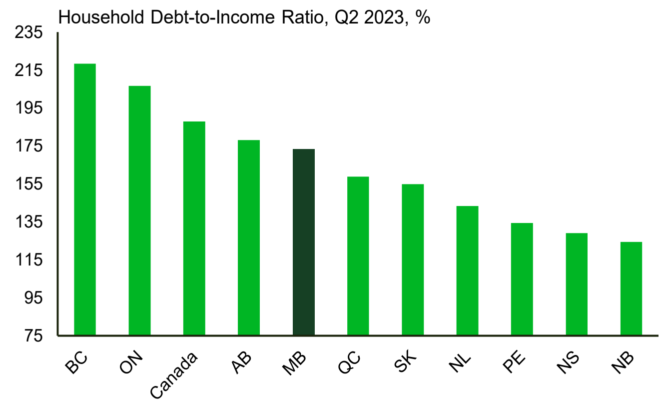
Manufacturing shipments have registered a decent gain year-to-date, as improving global supply chains have boosted the transportation sector. That said, much of this increase took place early in the year, and momentum in this sector is waning. Unfortunately, the outlook is also dim thanks to a slowing U.S. expansion and cooling activity in other provinces. In terms of other goods industries, Manitoba is well positioned to benefit from climate change initiatives through its reserve of key minerals – such as cobalt – needed in electric vehicle production. Growing demand for cleaner energy also has the province pledging to vastly increase its generating capacity over the long-term. However, in 2023, hydroelectric output is down significantly since the spring, likely weighed down by droughts.

Chart 1: High Employment Rates for Recent Immigrants in Manitoba Is Good News Given Immigration-Heavy Population Gains



*2016-2022 Average. Source: Statistics Canada, TD Economics.

Chart 2: Manitoba's Highly Indebted Households Are Rate Sensitive



Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	1.6	1.0	1.4
Nominal GDP	3.5	4.0	3.2
Employment	2.5	1.4	0.8
Unemployment Rate (%)	4.9	5.5	5.4
Housing Starts (000's)	6.8	5.6	6.2
Existing Home Prices	-2.4	5.0	3.4
Home Sales	-10.1	6.0	9.3

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

Ontario

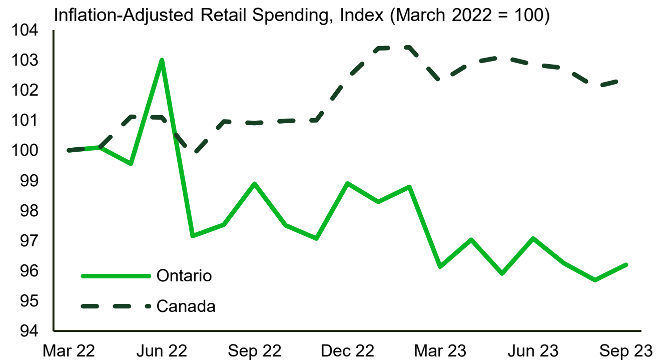
Even with highly indebted (and thus relatively rate sensitive) households and very weak housing markets, Ontario's economy has shown an impressive degree of resilience so far this year. Indeed, real GDP growth was 1.5% year-on-year in the first half, which is only a few ticks below-trend. The nation-wide contraction in GDP observed in the third quarter strongly suggests weakness in Ontario during this period. However, even during this time, Ontario's growth likely outperformed the nation overall, owing in part to a rise in motor vehicle exports.

Economic growth this year has been supported by firm manufacturing activity (healing global supply chains) as well as capital investment. The fastest population growth in decades is providing a key underpinning to the overall expansion, masking a soft performance in per-capita consumption this year. Elevated borrowing costs have been a major headwind to Ontario's highly levered households (Chart 1). And, we're expecting much of the same next year as well, with weak consumer spending driving a wedge between Ontario's and Canada's economic growth.

Zeroing in on housing, resale markets in the province are among the weakest in the country. Following rate hikes in the summer, home sales fell about 20% from May through October. However, activity may be turning a corner, as sales were up 2% m/m in November amid a pullback in mortgage rates in tandem with bond yields since the beginning of October. Notably, average prices fell 5% from their peak in June through November, although with conditions the loosest they've been since the financial crisis (Chart 2), they are likely to drop further. Indeed, we expect them to decline through the first half of 2024, before lower rates and a resilient economy propel them higher in the second half. However, the very challenging affordability backdrop should restrain the pace of growth. This soggy price backdrop has not yet dissuaded builders, with starts and completions running at multi-year highs. And, homebuilding will receive a boost moving forward from the federal/provincial decision to drop HST charges on purpose-built rental construction.

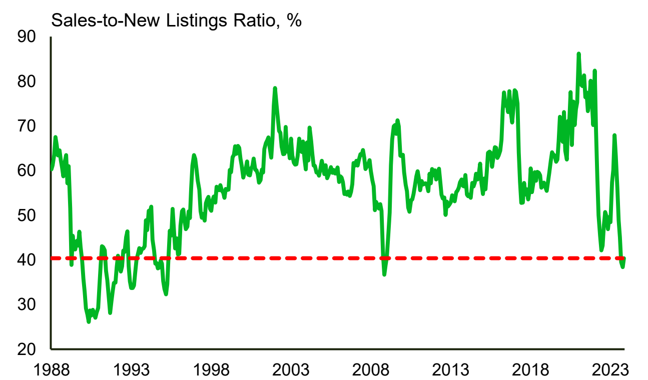
In the latest fiscal update, base spending growth was modestly upgraded for FY 2023/24, while the fuel tax suspension was extended to June 2024. In our view, neither action is likely to meaningfully move the dial on growth.

Chart 1: Higher Rates Have Weighed on Ontario's Highly Indebted Households



Source: Statistics Canada, TD Economics.

Chart 2: Ontario's Housing Market the Loosest Since the Global Financial Crisis



Source: Canadian Real Estate Association, TD Economics.

Ontario Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2023F	2024F	2025F
Real GDP	1.1	0.3	1.5
Nominal GDP	3.8	3.2	3.5
Employment	2.5	0.3	1.1
Unemployment Rate (%)	5.6	6.9	6.9
Housing Starts (000's)	95.1	87.1	89.4
Existing Home Prices	-5.7	-5.1	2.1
Home Sales	-13.1	2.7	20.7

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

Québec

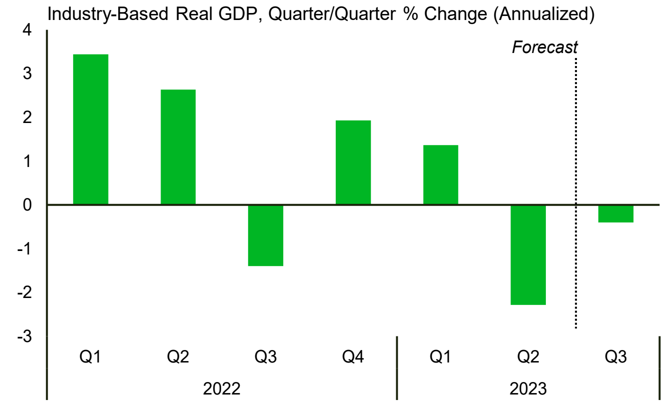
In recent quarters, Quebec's economy has been among the weakest performing provincial economies. Real GDP contracted at a 2% annualized pace in the second quarter and looks likely to have fallen again in Q3, barring a big growth surprise in September (Chart 1). Although this would fit with some analysts' simple definition of a technical recession, the labour market has bucked this recessionary signal by generating 50k net new jobs over the same period.

Weakness this year has been particularly pronounced in construction, reflecting a pullback in the residential sector after unsustainable years in 2021 and parts of 2022. This weakness has also weighed on manufacturing activity, evidenced by notable declines for materials that are heavily used in construction. Meanwhile, higher interest rates have impacted retail and services spending. The largest surprise has been utilities output, which dropped to its lowest level since 2012 in August, perhaps due to drought conditions pulling down hydroelectric output (Chart 2).

Also notable is the weakness in consumption in Quebec relative to Canada, despite a hefty household savings stockpile, lower household debt levels and solid wage growth. A major part of the answer likely lies in the fact that disposable income has fallen compared to the end of 2022 as generous provincial government support has unwound.

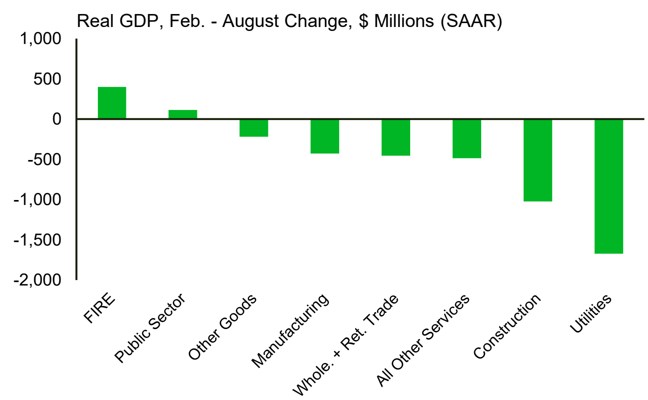
For 2024, we're forecasting a slightly better growth performance than this year, as growing prospects that the BoC will pivot and lower interest rates by the spring should support growth in construction spending and the housing market, the latter of which should boost the finance, insurance, and real estate sector. We're also anticipating a turnaround in utilities output after what will likely be the largest contraction since at least 1997 this year. Also, the Province's fall fiscal update contained additional measures relative to the budget, including tax relief and more government spending. There are some near-term challenges in the public sector, with as many as 570k workers hitting the picket lines during parts of November in search of better contracts from the government. Another weeklong strike took place this month, with the looming threat of an "unlimited" walkout by 420k workers (40% of the public sector workforce) if a deal is not reached. We estimate that measures taken so far have had little economic impact, although the threatened actions pose a significant near-term downside risk to growth.

Chart 1: Tough Times for Quebec's Economy



Source: Quebec Government, TD Economics.

Chart 2: Broad-Based Weakness in Quebec's Economy



Source: Quebec Government, TD Economics.

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

Economic Indicators	2023F	2024F	2025F
Real GDP	0.3	0.4	1.1
Nominal GDP	4.0	3.4	3.1
Employment	2.3	0.0	0.7
Unemployment Rate (%)	4.4	5.9	6.0
Housing Starts (000's)	42.9	44.6	47.1
Existing Home Prices	1.3	4.4	3.0
Home Sales	-12.8	7.1	8.5

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

New Brunswick

With the data largely evolving in line with our previous forecast, we have not made any significant changes to New Brunswick's (N.B.) economic outlook. At 1.1% in 2023, real GDP growth in the province is estimated to fall in the middle-of-the-pack before slightly overperforming the nation as a whole next year. Spending and labour markets are benefitting from record-setting population gains. But for Canada's most export-reliant economy, the headwinds from slowing global and domestic growth are continuing to weigh.

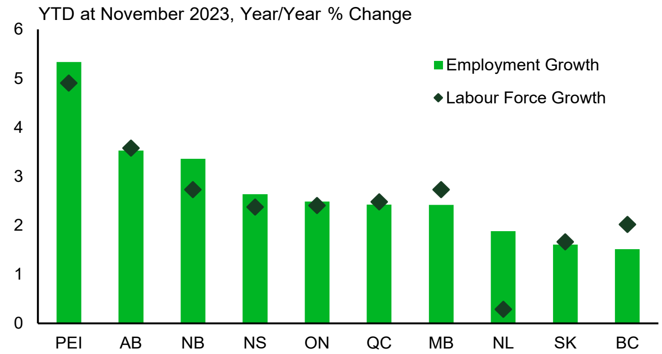
With N.B. households carrying relatively little debt, consumers have been better shielded against sharply higher borrowing costs. This has translated into inflation-adjusted retail spending that is tracking positively on the year. Juiced by the rising head-count, growth in employment and the labour force have been running at near-nation highs year-to-date (Chart 1). Momentum in the job market should carry forward into next year especially as the composition of newcomers has been increasingly skewed towards permanent residents. As the population surged, housing starts moved markedly higher on the year and strong demand has led to a less pronounced downswing in housing markets. In fact, home resales are close to their 5-year averages while prices are roughly in line with last year's peak.

The external backdrop has taken some wind out of the economy's sails as nominal exports this year are down over 10%. The decline is largely due to lower energy prices. Irving Oil Ltd., the operator of Canada's largest crude oil refinery in N.B., is also still under a strategic review, which has likely continued to impact oil shipments since June.

Over 90% of the province's international exports are shipped south of the border, where the economy is expected to decelerate into 2024. However, the outlook for an even weaker Canadian dollar over the near term could add a layer of support to N.B.'s international exports. Manufacturing sales are also lagging other provinces, down around 8% in the third quarter and on track to record a fourth consecutive quarterly decline. (Chart 2).

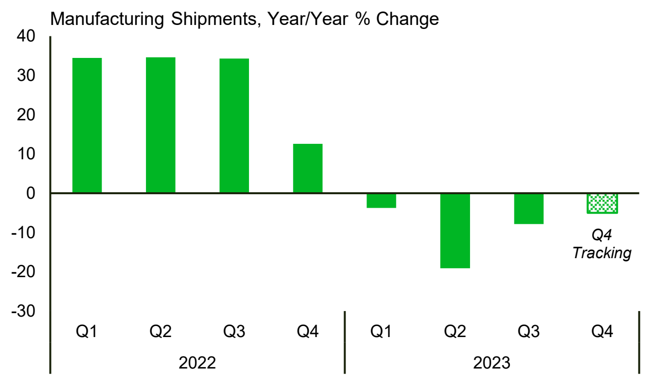
The N.B. government's fiscal backdrop continues to be healthy. In its mid-year fiscal update, the government revealed a projected FY 23/24 surplus of $35.5 million, roughly in line with expectations at the time of Budget 2023. Combined with a favourable net debt profile, the government will continue to enjoy some fiscal wiggle room in the event that the expected cyclical slowdown is deeper than projected.

Chart 1: New Brunswick Amongst Leaders in Employment and Labour Force Growth in 2023



Source: Statistics Canada, TD Economics.

Chart 2: New Brunswick's Manufacturing Shipments Suffered Declines in 2023



Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2023F	2024F	2025F
Real GDP	1.1	0.7	1.3
Nominal GDP	3.0	3.1	3.3
Employment	3.4	1.2	0.2
Unemployment Rate (%)	6.6	6.9	7.3
Housing Starts (000's)	4.3	2.8	2.7
Existing Home Prices	4.2	7.0	3.0
Home Sales	-13.9	2.3	6.3

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

Nova Scotia

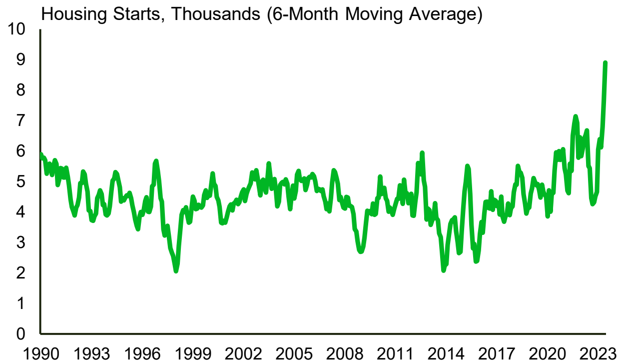
We're forecasting gain of around 1.5% for Nova Scotia's economy this year. While this is down from the heady 3% increase notched in 2022 (revealed by Statcan in early November), it's above the 10-year average. Sizzling population growth continues to be the most important driver, underpinning a robust gain in household consumption (according to our internal card spending data). Construction is also seeing a significant boost. The provincial government is implementing a massive capital plan and non-residential building construction is on the rise. Meanwhile, housing starts are trending at their highest level in many years (Chart 1). Note that residential construction will see support from the government's decision to drop the provincial portion of the HST on purpose-built rental construction.

While construction investment will likely remain firm next year, household spending appears on track to slow as elevated borrowing costs weigh. Moreover, job growth is cooling, and the unemployment rate is well off the lows seen earlier in the year. And, while wage growth is currently strong, it's likely only a matter of time before it slackens as well, especially with the unemployment rate set to march higher through 2024. It should be noted that population growth should remain strong next year, while Nova Scotia's households are holding relatively low levels of debt. As such, some spending outperformance relative to the rest of Canada is a reasonable bet for 2024.

In the latest fiscal update, Nova Scotia's FY 2023/24 deficit was projected at $264 million (0.5% of GDP) – about in line with what was expected in the spring budget. Government output has seemingly struggled to gain traction for much of this year, evidenced by declining public sector headcounts. However, at the national level, government spending growth was robust in the third quarter on the back of expenditures tied to disaster relief. Nova Scotia's economy likely got a near-term boost from this source as well, after the bevy of natural disasters which hit in Q3.

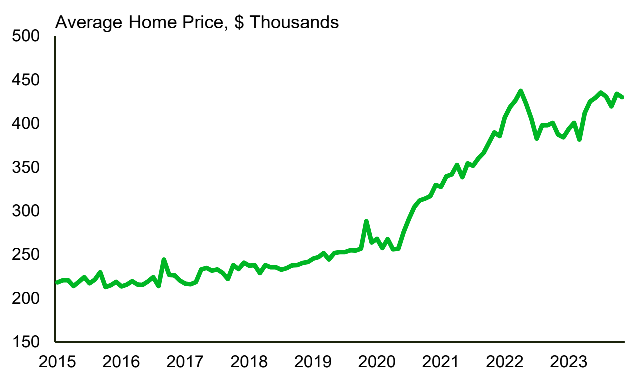
In Nova Scotia's housing market, average home prices continue to hold at levels some 70% higher than where they were before the pandemic struck (Chart 2). Higher rates have caused home sales to fall dramatically, although supply continues to hold at low levels, keeping markets tight. Accordingly, we're expecting prices to drop only modestly through early 2024, before recording gains thereafter as rates drop.

Chart 1: Population Growth Keeping a Fire Under Homebuilding in Nova Scotia



Source: Canada Mortgage and Housing Corporation, TD Economics.

Chart 2: Tight Markets Keeping Home Prices Elevated in Nova Scotia



Source: Canadian Real Estate Association, TD Economics.

Nova Scotia Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2023F	2024F	2025F
Real GDP	1.4	1.0	1.2
Nominal GDP	4.1	3.9	3.2
Employment	2.5	0.8	0.3
Unemployment Rate (%)	6.4	6.8	6.9
Housing Starts (000's)	6.3	6.4	5.9
Existing Home Prices	4.0	5.1	2.6
Home Sales	-17.8	5.3	10.2

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

Prince Edward Island

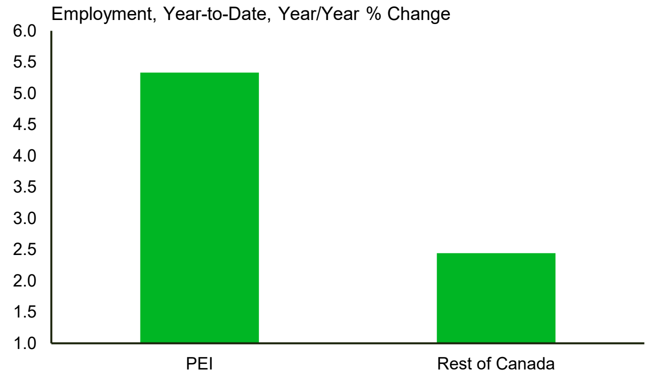
Despite recently losing the mantle of "fastest population growth in the country" to Alberta, PEI's population continues to swell at record-breaking rates. Immigration has been the biggest driver so far this year although interprovincial migration has remained strong, even with the rise of return-to-office work policies.

The Island has also improved its ability to retain immigrants in recent years, meaning that the benefits from these newcomers will be more fully felt over the medium-term. And, from an economic growth perspective, these benefits are plentiful. For one, consumption in PEI remains well supported, with inflation-adjusted retail spending growth running at a relatively strong pace. At the same time, labour markets are better supplied than many other places in the country, fueling the fastest job growth in Canada (Chart 1). We still expect consumption to slow through next year on the back of this year's run-up in interest rates. However, with Islanders recording some of the lowest household debt levels in the country, and consumption likely to be further juiced by robust population growth, a continued outperformance relative to the rest of Canada is likely on tap.

Policymakers have also had to adapt to this population expansion by rolling out a hefty infrastructure spending plan. This is supporting non-residential investment at a time when residential spending has pulled back from a robust 2022. Next year, we're expecting population gains, alongside the government's decision to drop their portion of the HST on purpose-built rental construction, to support higher housing starts in 2024 and 2025.

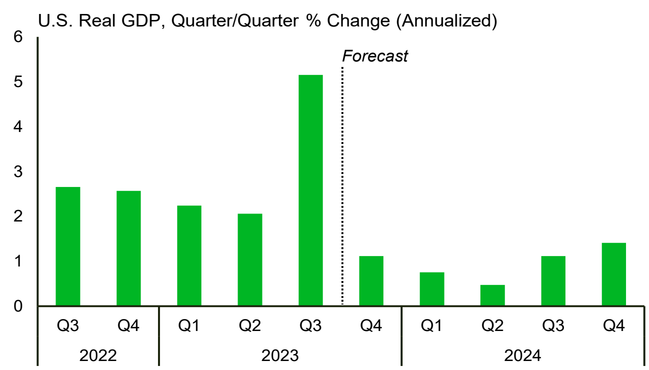
Manufacturers have enjoyed a solid year so far on the Island (shipments are up 14% year-to-date). Even with poor agricultural production (which itself slices a big chunk from 2023 growth), food manufacturing shipments are up, boosted by the removal of the U.S. ban on potato products. However, even with a competitive Canadian dollar, the backdrop will soon become more challenging as U.S. growth cools through 2024 (Chart 2). This will also weigh on tourism spending, which has already hit a wall. Notably, overnight stays on the Island were down modestly year-on-year through October.

Chart 1: Record Population Growth Fueling Hefty Job Gains in PEI



Source: Statistics Canada, TD Economics.

Chart 2: Weaker U.S. Growth To Impede PEI's Manufacturing and Tourism Industries



Source: Bureau of Economic Analysis, TD Economics.

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	2.3	1.4	1.5
Nominal GDP	5.1	4.4	3.5
Employment	5.6	2.9	0.5
Unemployment Rate (%)	7.3	7.8	8.0
Housing Starts (000's)	0.8	1.1	1.2
Existing Home Prices	-0.4	-0.4	2.1
Home Sales	-6.7	4.9	8.4

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

Newfoundland & Labrador

Prospects for Newfoundland and Labrador's (N.L.) oil and mining sectors soured over the year, likely driving the economy into a contraction as a result. The sputtering of activity in these industries–which account for a sizeable 25% of the province's output–largely overshadowed otherwise decent performance across most other economic indicators. Still, we've penciled in a real GDP decline of 0.4% for 2023, which would mark a second consecutive annual decline after the province struggled to gain momentum in 2022. Despite the step back, a strong turnaround in real GDP is expected next year (+2.2%), which puts N.L. at the top of the 2024 growth charts.

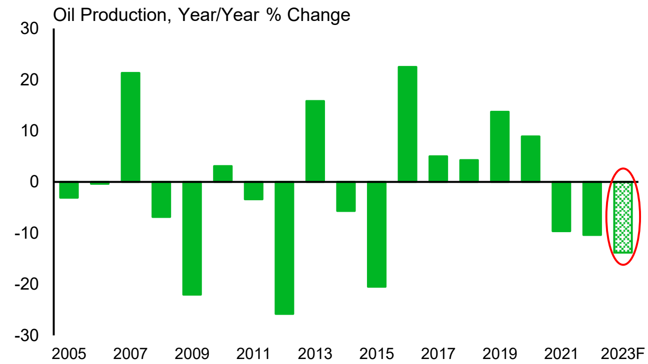
The delayed restart of the Terra Nova oilfield coupled with maintenance at other offshore facilities was a one-two punch for N.L. oil sector this year. Chart 1 shows that overall crude oil production is due for another sizeable pullback, slumping now for a third straight year. Fortunately, the Terra Nova oilfield will be operational and in full force as we move into 2024, alongside other major offshore facilities, which should result in robust oil production growth next year. Terra Nova is now expected to add 70 million barrels of oil to its production capacity over the next ten years.

On the mining front, a sharp pull-back in prices relative last year's peak levels for iron ore, nickel and copper have weighed on mineral shipments, which are on track to decline by 10–15% for 2023 as a whole (Chart 2). Despite the pullback, the mining sector remains a medium-term bright spot for N.L.'s economy as mineral exploration expenditures ramp up. Further, base metal prices are poised to find support as central banks move into a less restrictive policy mode next year, spurring an increase in global demand.

The Province also recently signed an agreement with the federal government that, if passed, would allow N.L. to solely regulate its renewable energy developments on various Bays around the province. This would mark a significant economic opportunity for the jurisdiction and would support future investment for offshore wind development projects.

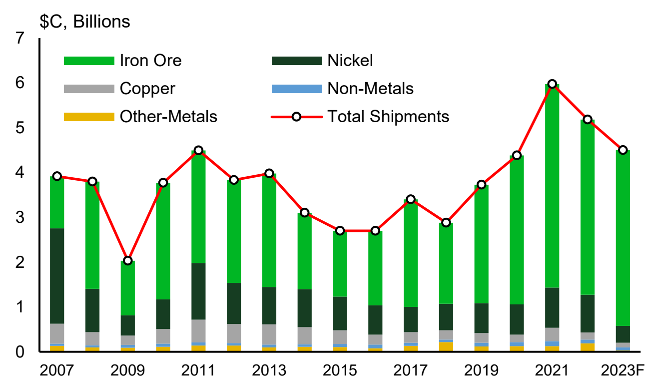
The performance of domestic-oriented industries has held up comparatively well notwithstanding the Bank of Canada's aggressive rate hiking campaign. Decent employment strength has broadly supported consumer spending, with retail sales slated to advance this year as of the third quarter. What's more, internal TD spending data points to robust household spending, with N.L. leading all provinces in year-to-date outlays.

Chart 1: Newfoundland & Labrador's Oil Production Will Be a Drag on 2023 GDP



Source: Government of Newfound & Labrador, TD Economics.

Chart 2: Newfoundland & Labrador's Mineral Shipments Set for Another Contraction



Source: Newfoundland & Labrador Department of Industry, Energy, & Technology, TD Economics.

NFLD & Labrador Economic Forecasts
[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	-0.4	2.2	1.3
Nominal GDP	-3.9	5.3	3.2
Employment	1.7	-0.3	0.0
Unemployment Rate (%)	9.8	10.6	11.4
Housing Starts (000's)	1.2	1.3	1.3
Existing Home Prices	1.4	4.8	1.9
Home Sales	-15.5	4.3	7.1

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.)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
National	**1.1**	**0.5**	**1.5**	**2.5**	**3.5**	**3.5**	**2.4**	**0.6**	**0.8**	**5.4**	**6.5**	**6.6**	**247.6**	**232.9**	**232.1**	**-3.3**	**-3.2**	**4.3**
Newfoundland & Labrador	-0.4	2.2	1.3	-3.9	5.3	3.2	1.7	-0.3	0.0	9.8	10.6	11.4	1.2	1.3	1.3	1.4	4.8	1.9
Prince Edward Island	2.3	1.4	1.5	5.1	4.4	3.5	5.6	2.9	0.5	7.3	7.8	8.0	0.8	1.1	1.2	-0.4	-0.4	2.1
Nova Scotia	1.4	1.0	1.2	4.1	3.9	3.2	2.5	0.8	0.3	6.4	6.8	6.9	6.3	6.4	5.9	4.0	5.1	2.6
New Brunswick	1.1	0.7	1.3	3.0	3.1	3.3	3.4	1.2	0.2	6.6	6.9	7.3	4.3	2.8	2.7	4.2	7.0	3.0
Québec	0.3	0.4	1.1	4.0	3.4	3.1	2.3	0.0	0.7	4.4	5.9	6.0	42.9	44.6	47.1	1.3	4.4	3.0
Ontario	1.1	0.3	1.5	3.8	3.2	3.5	2.5	0.3	1.1	5.6	6.9	6.9	95.1	87.1	89.4	-5.7	-5.1	2.1
Manitoba	1.6	1.0	1.4	3.5	4.0	3.2	2.5	1.4	0.8	4.9	5.5	5.4	6.8	5.6	6.2	-2.4	5.0	3.4
Saskatchewan	1.2	1.2	1.5	-0.9	3.8	3.2	1.7	1.6	0.9	4.8	5.5	5.6	4.5	4.3	4.6	0.0	3.1	4.2
Alberta	2.2	1.4	1.8	-1.3	4.4	3.7	3.5	1.4	1.0	5.8	6.3	6.4	34.4	33.3	31.4	1.4	5.1	3.6
British Columbia	0.9	0.3	1.8	2.3	3.1	4.0	1.5	0.7	0.6	5.1	6.1	6.1	51.2	46.3	42.3	-1.4	-0.9	2.2

F: Forecast by TD Economics, December 2023. Source: Canadian Real Estate Association, Canada Mortgage and Housing Corporation, Statistics Canada, TD Economics.