TD Economics

Provincial Economic Forecast

Lower Rates, Better Fates

December 16, 2024

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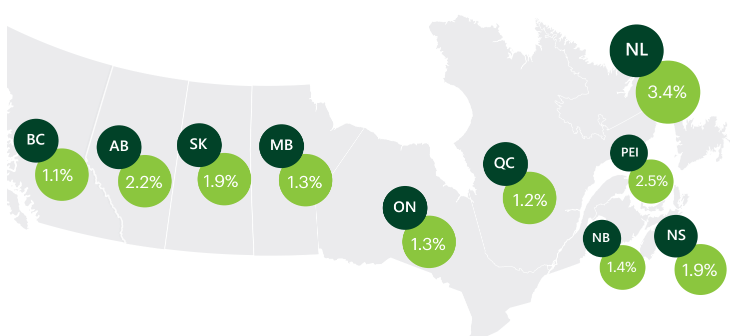
- 2024 is playing out largely as expected across Canada's regional landscape, with most of the Prairie and Atlantic provinces leading economic growth while Ontario, B.C., and Quebec lag.
- A number of regions are capping off this year displaying moderately stronger momentum in economic growth and job creation than we had envisaged in September. However, any upgrades to 2025 provincial growth forecasts reflecting this positive hand-off have been neutralized by downside growth risks on Canada owing to the imposition of tariffs by the new U.S. administration.
- The president-elect has threatened to impose a 25% across-the-board tariff on Canadian exports. We assume that Canada will manage to avert this outcome, partly reflecting the energy-heavy nature of its exports to the U.S. Still, this regional forecast incorporates some chill to investment and hiring due to the tariff threat that is likely to linger.
- Importantly, no province would escape the fallout from a Canada/U.S. trade skirmish, with U.S. export exposure ranging from about 80-90% in Alberta, New Brunswick, and Ontario to a still-lofty 50-60% in B.C and Saskatchewan. Beyond the first-order effects from tariffs on exports, provinces would also feel the hit through damage to other trading partners. PEI, Saskatchewan, and Manitoba source a comparatively large share of their imports from the U.S., potentially leaving them exposed to inflation pressures should Canada impose tariffs of its own.
- The country's population growth is set to stall over the next two years through planned reductions in both the pool of non-permanent residents (NPRs) and a scaling back in its annual permanent immigration targets. Ontario, B.C. and Quebec will likely see population growth pull back the fastest. Meanwhile, ongoing affordability advantages in the Prairies and some Maritime provinces will remain a lure for interprovincial migrants.
- A wave of federal government stimulus is set to reach Canadian consumers in the coming months, with Ontario set to roll out its own measure in the new year. Combined with ongoing interest rate reductions, we expect consumer spending growth to pick up across the provinces despite slower population growth. Provinces with the highest debt burdens, namely B.C., Ontario, and Alberta, should disproportionately benefit from easing conditions. Housing markets across the country are also poised to benefit from supportive federal measures, and gradually falling short-term interest rates.

Provincial Real GDP Growth Forecast (2024)



Source: TD Economics. Forecast as of December 2024.

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

British Columbia

This year, British Columbia's (B.C.) economy is modestly outperforming our expectations in September, but it is still expected to undershoot the nation as a whole. Elevated mortgage debt levels have prompted consumers to tighten their purse strings, especially on discretionary goods. As such, inflation-adjusted retail spending is tracking its third consecutive year of red ink. Looking ahead to 2025, we expect that the pace of growth in B.C. will take a decent step forward, allowing the province to regain its status as an above average performer.

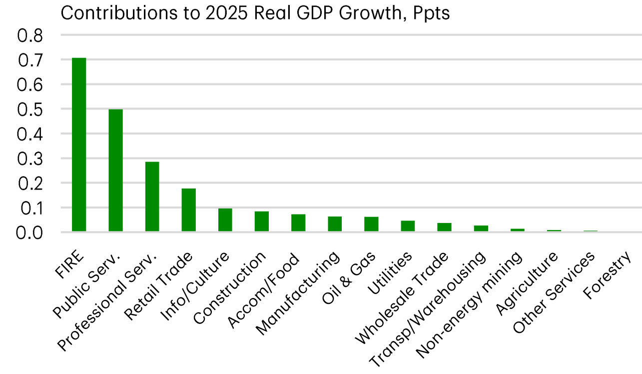
One area that is starting to perk up is resale housing activity on the heels of the 175 bps in cumulative short-term interest rate relief. Home sales are on pace to snap back by nearly 20% in Q4-24, providing a good starting point for 2025. An outlook for further gains in activity (albeit more moderate) next year and into 2026 will likely feed through to the province's residential investment and finance, insurance, and real estate industries, which together comprise 25% of the total economy (Chart 1). Housing starts, despite trending a bit lower this year, have outperformed the likes of Ontario.

The outlook for B.C.'s export sector is more uncertain. On one hand, B.C.'s natural gas production volumes are grinding higher, helped by the near 40% rise in prices since early-September combined with the much-anticipated startup of LNG Canada next year. On the flip side, the province's second largest export, forestry products, continue to struggle amid elevated lumber duties. The threat of a 25% U.S. tariff on Canadian exports looms large, but one silver lining is that B.C. is relatively less dependent on the U.S. for trade – it exports roughly 53% of goods stateside compared to over 75% for Canada as a whole.

For its part, B.C.'s labour market has held up comparatively well, with the province maintaining the second lowest unemployment rate across jurisdictions. With B.C.'s population growth slated to slow to under 1% next year, we expect the jobless rate to crest at 6% in H1 before gradually declining thereafter (Chart 2).

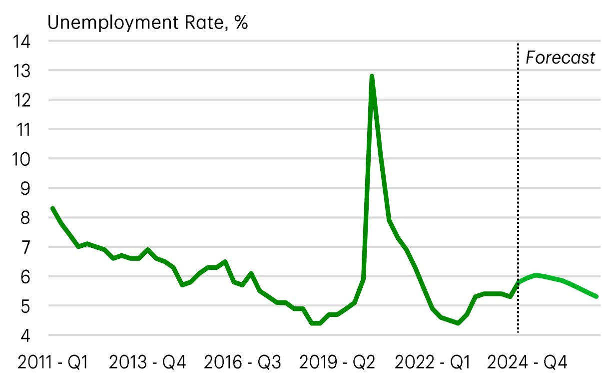
The B.C. government's worsening fiscal health remains a near-term concern. At over 2% of GDP, this year's expected deficit is the largest in the country relative to the size of the economy. Likewise, province's debt burden continues to rise faster than most provinces. Indeed, the taxpayer-supported debt-to-GDP ratio is set to reach 22% this year, more than 7 ppts above its pre-pandemic level.

Chart 1: Real Estate Sector Provides Tailwind for B.C.'s 2025 Growth



Source: Statistics Canada, TD Economics.

Chart 2: B.C. Job Gains Keeping Unemployment Rate Rises at Bay



Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	**2024F**	**2025F**	**2026F**
Real GDP	1.1	2.2	1.7
Nominal GDP	4.3	4.7	4.1
Employment	1.8	-0.1	0.6
Unemployment Rate (%)	5.6	6.0	5.5
Housing Starts (000's)	44.5	41.9	44.7
Existing Home Prices	1.3	3.0	2.7
Home Sales	2.9	23.4	2.9

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

Alberta

Alberta's economy has likely risen to near the top of the provincial leaderboard this year. As expected, the Trans-mountain Pipeline Expansion (TMX) has been a boon for oil production and exports, while the construction sector has been benefitting from robust demand. Strong momentum heading into 2025 bodes well for growth next year, though two potential flies in the ointment are the possibility of an unexpectedly sharp slowdown in the province's population growth and the threat of potential U.S. tariffs on Canadian outbound energy shipments.

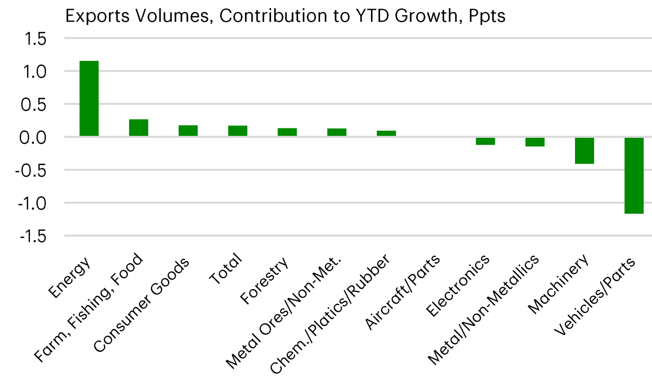
Current oil production in Alberta is just below the record 4.2-million barrel per day (m/bpd) mark seen at the end of last year. In terms of the average annual change in 2024, production is tracking a rise of 180k/bpd (or 5%), only slightly below our early-year estimate of a ~200k/bpd increase. This growth has lifted the national export tide, where Canadian energy products are far and away the biggest contributor to total export volumes in 2024 (Chart 1).

In its mid-year fiscal update, the province noted that elevated crude oil royalties have pushed the expected FY 24/25 surplus up by over $4 billion relative to Budget 2024. That said, the near-term outlook for crude prices has been souring more recently given slower projected global demand and the potential for a supply surplus by mid-next year. The government's $74/bbl forecast for WTI next year now appears on the optimistic side and injects some downside risk to future revenues—though the cautious assumptions around the Canadian dollar and the WTI-WCS differential forecast may provide an offset.

Alberta's pace of expansion would be running even hotter this year had it not been held back by household spending – a surprising development given rapid population growth. Indicators such as inflation-adjusted retail sales as well as our own internal spending data all point to stagnant consumer activity. There is some compelling evidence that spending in the province is being redirected towards debt repayment. Case in point, mortgages in arrears have been declining since mid-2022, counter to other high-debt provinces which show the opposite trend (Chart 2).

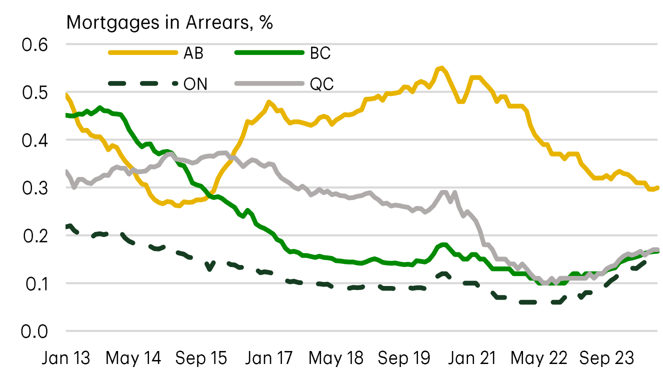
On housing, we expect both sales and average prices to increase in the coming quarters, supported by lower borrowing costs and an ongoing affordability advantage. Recent momentum within the homebuilding sector – where starts recently hit their highest level since early-2015 – augurs well for continued growth in residential investment over the forecast period.

Chart 1: Alberta's Crude Shipments Have Lifted Total Canadian Exports This Year



Source: Statistics Canada, TD Economics.

Chart 2: Mortgages in Good Standing are Improving in Alberta



Source: Canadian Bankers Association, TD Economics.

Alberta Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	2.2	2.0	2.0
Nominal GDP	5.5	4.4	4.4
Employment	2.9	2.2	1.0
Unemployment Rate (%)	7.1	6.8	6.1
Housing Starts (000's)	47.1	43.6	37.9
Existing Home Prices	10.2	7.4	3.5
Home Sales	10.0	10.0	1.8

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

Saskatchewan

We've lifted our 2024 Saskatchewan GDP forecast owing partly to recently-released agricultural production data showing nearly 10% output growth in the crop sector. Wheat production in particular had a stand-out year, accounting for more than half of the province's total agriculture growth (Chart 1) and offsetting weakness in canola production. The slowing in canola was somewhat expected as China – the largest market for Canadian canola exports – has been restricting imports as it conducts a one-year anti-dumping probe on Canadian product. This is one notable weak spot in a provincial outlook that otherwise remains constructive.

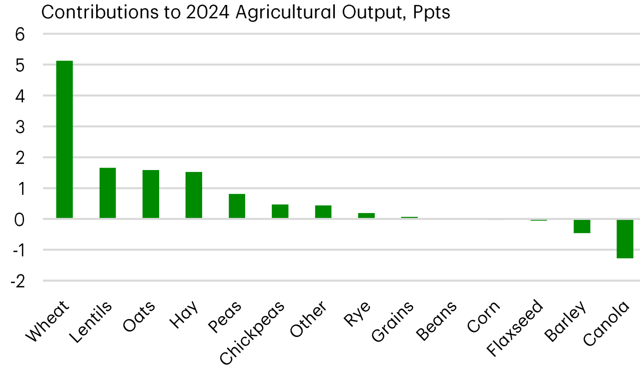
For one, non-residential construction growth continues to benefit from ongoing work at the Jansen Mine project. Meanwhile, residential construction investment is also advancing at a healthy clip. Indeed, interest rate cuts have been igniting housing demand in recent months. Looking ahead to 2025, we anticipate resale activity and price growth to advance at a faster pace than most other provinces.

Other goods-related industries are also showing some promise. Potash and uranium production have been ramping up, consistent with the province's Critical Minerals Strategy, while the utilities sector is slated to grow for a fourth straight year in 2024 with continued momentum into 2025. The oil sector has lagged, with total production this year likely to come in line with 2023 levels.

Meanwhile, Saskatchewan's labour market continues to churn out decent job gains, especially within the public services sphere. Healthy labour demand has helped the province boast the lowest unemployment rate across provinces, which combined with sub-2% inflation, is generating positive real wage growth for workers. Despite these positives, households have not managed to buck the national trend of cautious spending behavior in recent quarters. Still, a combination of falling interest rates and a healthy near-term labour market outlook is expected to support a solid pickup in consumer demand over the next year.

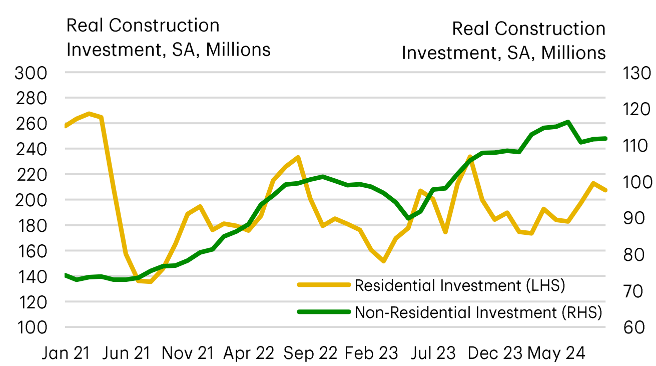
In its mid-year update, Saskatchewan's government reported a deeper deficit (-0.6% of GDP) than what was projected in Budget 2024, largely due to higher payouts for agriculture insurance claims. However, a disciplined spending plan combined with a low debt burden and strong credit ratings should keep the province in good fiscal standing and provide a decent cushion in the event that downside growth risks (i.e., trade-related) materialize.

Chart 1: Saskatchewan Wheat Output Will Lift the Province's Agricultural Sector in 2024



Source: Statistics Canada, TD Economics.

Chart 2: Saskatchewan's Construction Sector On Pace for Solid 2024 Growth



Source: Statistics Canada, TD Economics.

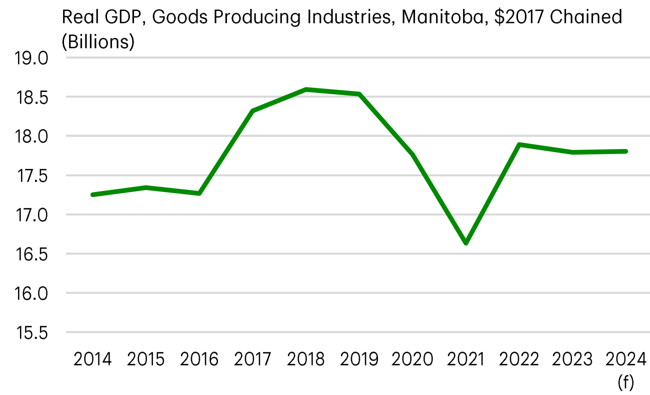
Saskatchewan Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	1.9	1.9	1.8
Nominal GDP	4.8	4.1	4.0
Employment	2.2	1.3	0.7
Unemployment Rate (%)	5.5	5.5	5.3
Housing Starts (000's)	4.4	4.5	4.9
Existing Home Prices	7.2	9.4	4.1
Home Sales	9.7	8.6	4.7

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

Manitoba

Compared to other parts of Canada, Manitoba's economy has struggled over the past several years. It has been a particular challenge for the goods sector, where output was 4% below its pre-pandemic level in 2023. This same narrative is holding this year, with flat goods production likely (Chart 1). The main drag has been utilities production, where drought conditions caused it to crater in 2023 and hold at low levels in early 2024. More recently, however, utilities output has been normalizing, setting the stage for double-digit growth next year. This should add handily to overall GDP in 2025.

Chart 1: Manitoba's Goods-Producing Industry Has Faced Many Headwinds

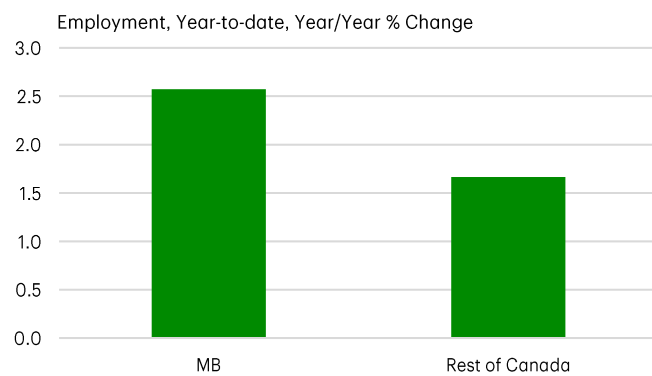


Source: Statistics Canada, TD Economics.

Manufacturing is on track to record a sub-trend showing for 2024 overall, but that has masked improving momentum as the year has progressed. Despite the spectre of U.S. tariffs, next year should bring better fortunes for the industry, supported by a moderate improvement in the Canadian growth backdrop and loonie softness. Transportation equipment manufacturing also likely has room to run, as it's only recently returned to its pre-pandemic level after being plagued by supply chain issues.

It's been a subdued year for Manitoba's large agricultural sector, where crop production managed a modest gain, supported by soybean production. We're assuming another increase in 2025, although prospects for the sector are at risk from potential Chinese duties on Canadian canola imports, after Canada announced new tariffs on Chinese EVs beginning in October.

Chart 2: Solid Job Growth Lifting Consumption in Manitoba



Source: Statistics Canada, TD Economics.

On the flipside, construction is a goods industry that's having a firm 2024 performance on the back of residential building. Weaker, but still positive growth is likely in the cards for this industry next year. On the one hand, homebuilding should cool after a firm 2024. On the other, the provincial government will likely continue the rollout its hefty infrastructure plan.

Households continue to spend at healthy rates in Manitoba, despite holding high levels of debt. Support has come from relatively firm job growth (Chart 2), underpinned by sturdy labour demand. At the same time, inflation is subdued at only 1.1%, and the government's plan to freeze electricity and natural gas rates should, on the margin, add some downward pressure. Next year, consumption stands to benefit from gradually lower interest rates and federal government stimulus. Reduced borrowing costs will also benefit Manitoba's housing market, generating another strong year in 2025.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024F	2025F	2026F
Real GDP	1.3	1.8	1.7
Nominal GDP	3.9	3.6	3.8
Employment	2.6	2.1	0.9
Unemployment Rate (%)	5.3	5.3	5.0
Housing Starts (000's)	7.2	6.9	6.4
Existing Home Prices	6.3	7.3	3.2
Home Sales	11.1	7.4	2.0

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

Ontario

Ontario is facing its second straight year of paltry economic growth and shrinking GDP in per capita terms. Looking under the hood, the main catalyst behind this year's tough slog has been the goods sector. Indeed, when it's all said and done, overall output for goods-producing industries will have likely tumbled at its steepest rate since the pandemic in 2024 (Chart 1).

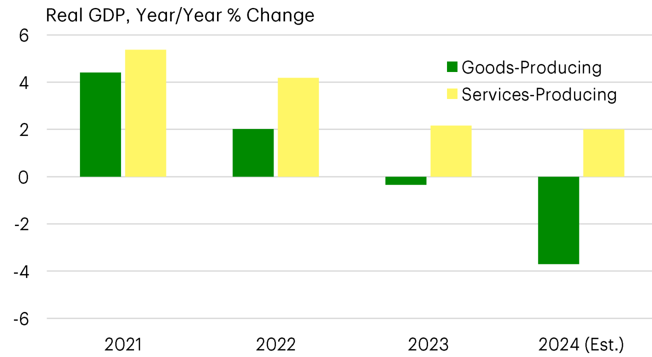
Within the goods sector, a sharp decline in condominium investment is weighing on construction, as the industry is retrenching in response to very weak home pre-sales activity. Manufacturing activity hasn't fared much better amid auto plant closures in Canada and the U.S. for EV retooling. We expect another tough year for construction in 2025 as condo construction continues to be weak. Manufacturing activity will likely gain some traction next year on the back of rising auto production and still-firm U.S. economic growth. However, the potential for U.S. tariffs is a major threat to Ontario's auto sector, and vehicles represent Canada's second largest export to the U.S.

On a per capita basis, household spending has declined by more in Ontario than the rest of Canada since interest rates began to climb higher in 2022. In 2025, we see household spending advancing at a trend-like 2% pace, supported by falling interest rates and government stimulus measures, including $3 billion in provincial funds to be doled out to Ontario's households early next year.

Preventing an even stronger consumption performance is the likelihood that population growth will slow dramatically next year. Ontario is particularly vulnerable to the federal plan targeting a net outflow of non-permanent residents, given the province's outsized share of these newcomers. Weaker population growth should downwardly pressure labour force gains, leading to a moderate pull-back in the unemployment rate from its current level next year.

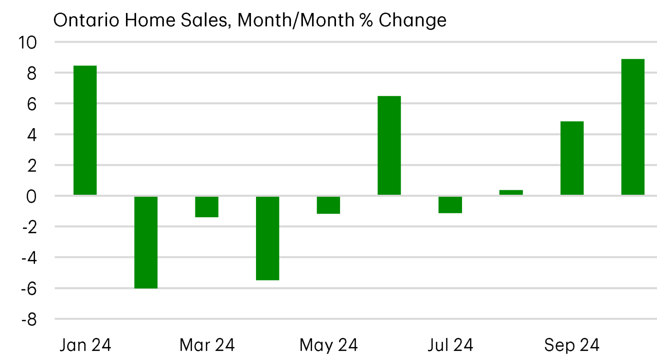
Softer population growth will also likely reduce pressure on housing markets through weaker rental demand, weighing on investor appetite for homes. This probably won't be enough to prevent a strong year for Ontario's housing market, as falling borrowing costs and loosened federal mortgage rules (enacted this month), unlock significant pent-up demand. We've already had a taste of what's to come, with home sales surging 9% m/m in October (Chart 2).

Chart 1: Ontario's Goods and Services Growth Gap Largest Since Financial Crisis



Source: Ontario Government, TD Economics.

Chart 2: Ontario Home Sales Climbing Since BoC Began Cutting Rates



Source: CREA, TD Economics.

Ontario Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	1.3	1.5	1.8
Nominal GDP	4.3	3.6	3.9
Employment	1.6	1.3	0.4
Unemployment Rate (%)	6.9	6.9	6.4
Housing Starts (000's)	75.2	70.5	69.0
Existing Home Prices	0.3	6.4	2.7
Home Sales	4.8	22.6	4.1

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

Québec

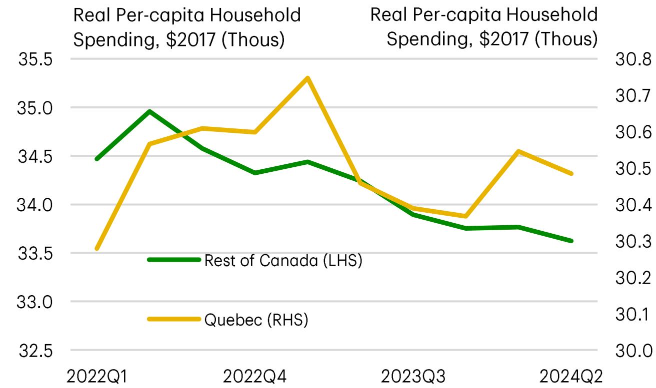
We've nudged up our 2024 growth forecast for Quebec on the back of a firmer-than-expected third quarter. The consumer in Quebec is holding up comparatively well (Chart 1). This performance has come despite an underwhelming jobs market that's pushed the unemployment rate up 1.9 ppts from its 2023 trough. Spending offsets have come through sturdy population growth, robust gains in employee compensation, solid housing market activity, and the release of pent-up auto demand which fueled a robust gain in durables spending. It also doesn't hurt that Quebec's households are among the least indebted in the country.

Household spending will likely be decent in 2025 as well, supporting a similar performance in GDP growth relative to this year. Measures in November's fall fiscal update will offer some modest support to consumers, largely through increases to the basic personal amount and the Family Allowance payment, augmenting the boost coming from lower interest rates and federal stimulus. On the flipside, slower population growth – likely through the non-permanent resident channel – will weigh on consumption. Quebec is aiming to admit about 50k permanent residents (despite the temporary suspension of two pathways to permanent residency), about the same as this year, and contrasting with the federal government's plan to lower the immigrant intake.

Momentum in Quebec's public sector has held firm in recent quarters after an early-2024 surge. However, we're forecasting a significant slowdown in public sector output growth in 2025, consistent with provincial spending plans (Chart 2). In the November update, the provincial government projected modest 2% nominal spending growth over FY 2025/26 and will wait until the spring budget to roll out a plan back to budget balance.

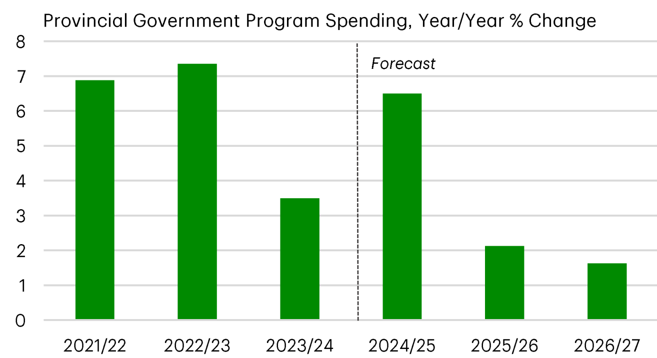
Like most other provinces, manufacturing has stumbled in Quebec this year, likely weighed down by a lack of demand from an equally soft construction sector. Although it's tough to parse out how much manufacturing activity in the province may have been impacted by the roughly 2-week Port of Montreal strike, transportation GDP will receive a temporary knock. We're counting on continued U.S. economic expansion to drive an improved year for manufacturing in 2025. However, with about 75% of exports sent south of the border, Quebec is in the crosshairs of a potential trade war with the U.S.

Chart 1: Relative Pep in Quebec Consumers' Step



Source: Statistics Canada, Quebec Government, TD Economics.

Chart 2: Likely Less Support to GDP from Quebec's Public Sector in 2025



Source: Quebec Government, TD Economics.

Québec Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	1.2	1.3	1.3
Nominal GDP	4.2	3.3	3.6
Employment	0.6	1.0	0.5
Unemployment Rate (%)	5.4	5.7	5.4
Housing Starts (000's)	46.3	46.0	50.0
Existing Home Prices	7.3	7.0	2.9
Home Sales	17.6	7.2	0.7

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

New Brunswick

New Brunswick's (N.B.) economic outlook is a mixed bag. On one hand, the household sector is showing surprising resilience. A combination of low debt levels, still-rapid population growth, and robust labour demand is likely to continue to propel overall consumer spending in the near term. On the other, N.B.'s heavily export-dependent economy faces disproportional downside risks at a time where global trade tensions are on the rise. All told, we see economic growth humming along at around the national-average pace for the next couple of years.

A key risk facing N.B.'s economy is its dependence on the U.S. as a trading partner. The threat of a U.S.-imposed 25% tariff on all Canadian exports would likely hit the province's top line GDP hardest. Chart 1 makes this point clear: across provinces, N.B. sends the highest proportion of its finished goods to the U.S. (90%) and has the second-highest exports relative to GDP (61%). Our baseline forecast does not include Trump's full-scale tariff plan, but considers the hit to business investment via the sentiment channel.

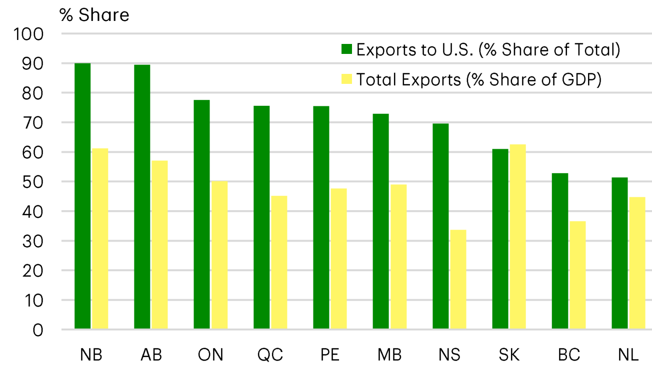
For now, key goods sectors appear to be turning a corner. After seven consecutive quarterly contractions, N.B.'s manufacturing sector is on track register a healthy gain to cap off 2024. Further, building construction investment, both residential and non-residential, has gradually picked up momentum, providing a strong handoff into 2025.

Unlike the rest of the Atlantic region, population growth in N.B. is still running close to peak growth rates, supported by elevated flows international migrants (Chart 2). We do expect the rate of in-migration to moderate on the back of new federal immigration policies, but not to the same extent as most other provinces.

In its mid-year fiscal update, N.B.'s government projected a slight deficit (-0.2% of GDP), which would end a run of eight straight years in black ink. Despite this modest deterioration, N.B.'s fiscal situation continues to remain solid compared to its peers. The government carries the fourth lowest net-debt burden among the provinces, pointing to some fiscal wiggle room to offset growth headwinds if needed.

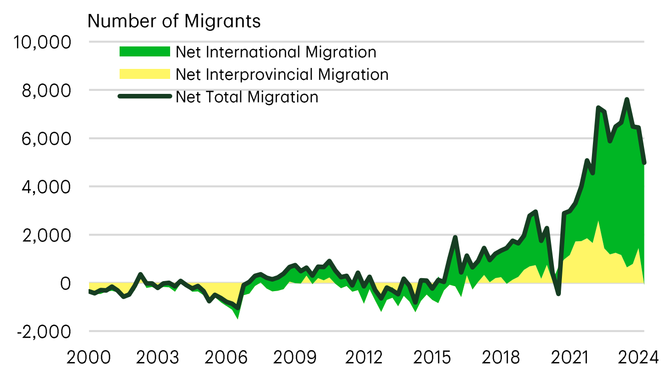
Longer-term, N.B. is looking to cement itself as a national leader in green energy transition initiatives. Recently-announced funding from the Canada Infrastructure Bank (CIB) of up to $1 billion for Indigenous-led wind projects will continue to support investment and jobs in N.B.'s energy and resource sectors over the medium-term.

Chart 1: N.B. is Canada's Most Export-Reliant Economy



Source: Statistics Canada, TD Economics.

Chart 2: N.B. Immigration Still Running at Historically Elevated Levels



Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	1.4	1.4	1.3
Nominal GDP	3.7	3.4	3.4
Employment	3.0	1.0	-0.1
Unemployment Rate (%)	7.0	6.8	7.3
Housing Starts (000's)	6.2	5.8	3.7
Existing Home Prices	10.4	7.6	3.2
Home Sales	3.1	8.8	4.3

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

Nova Scotia

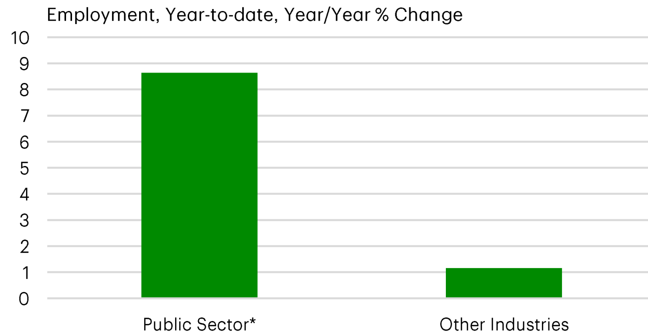
We've upgraded our 2024 growth forecast for Nova Scotia. We now see it nearly matching 2023's solid gain on the back of the public sector, which could contribute nearly 1 ppt to overall GDP. Hiring has surged in this industry (Chart 1), consistent with robust provincial program spending growth. The story could shift in 2025, however. The province's latest budget (delivered by a Conservative majority government that just secured an election win) points to a significant spending slowdown next year.

The provincial government has also announced a 1 ppt reduction to the HST, effective April of next year. Alongside the fillip from federal stimulus, this policy will add a tailwind to a consumer that has already been performing well, according to our internal spending data. Consumer spending has been supported by healthy job growth and robust real wage gains. Strong population growth has also helped, but the tide is turning here (Chart 2), thanks to reduced inflows of non-permanent residents and newcomers from other provinces. Rapidly cooling population growth has also downwardly pressured Nova Scotia's unemployment rate. Now, it's below Canada's, which is a rare feat. This population slowdown should be sustained into 2025 and is a key factor underpinning our projection for softer GDP growth next year.

Home sales are on track to post a significant upside surprise in the fourth quarter, and we're anticipating another strong year for home sales and price growth in 2025, amid dropping borrowing costs, and tight supply/demand balances. Note that average home prices were 80% above their pre-pandemic level in October. Homebuilding is similarly holding up well, but it's non-residential building that's stealing the spotlight, thanks in part to construction of the large-scale QEII healthcare project. This project will continue to lift construction next year.

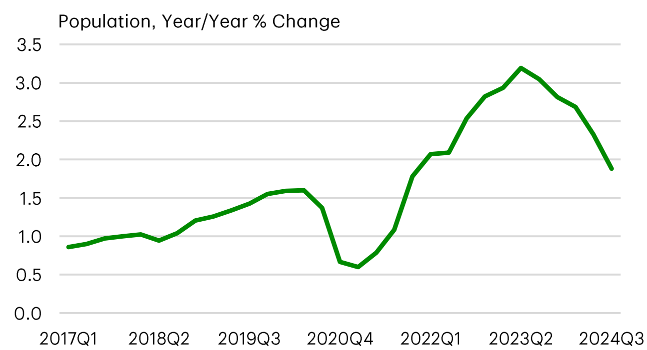
About 70% of Nova Scotia's exports are U.S. bound. This open's Nova Scotia's economy up to tariff risks, although this share is on the smaller end of all provinces. Unfortunately, growth prospects for its 2nd largest international trading partner – China – look to be dimmed by the incoming Trump presidency. On the other side of the trade ledger, only about 5% of its imports come from the U.S., with European countries like the U.K and Germany playing a much larger role. As such, inflation could see less of a lift should a trade skirmish flare up between the U.S. and Canada.

Chart 1: The Public Sector Doing the Heavy Growth Lifting in Nova Scotia



Source: Statistics Canada, TD Economics.* Public sector = educational + healthcare + social assistance + public admin

Chart 2: Cooling Population Growth to Weigh on Nova Scotia's GDP in 2025



Source: Statistics Canada, TD Economics.

Nova Scotia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	1.9	1.4	1.3
Nominal GDP	4.6	3.5	3.5
Employment	3.2	0.1	-0.1
Unemployment Rate (%)	6.4	6.5	6.9
Housing Starts (000's)	7.2	6.4	6.3
Existing Home Prices	6.8	6.4	2.5
Home Sales	8.6	9.5	4.1

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

Prince Edward Island

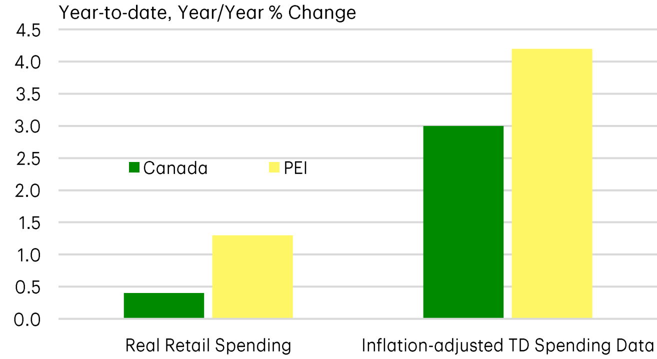
PEI is on track to record yet another strong year for economic growth in 2024. The consumer is offering an important helping hand (Chart 1), supported by the country's strongest job growth, while low household debt levels are unlocking the room for Islanders to spend. What's more, real wage growth is robust on the back of healthy labour demand and 1.3% inflation. Bucking this overall firm trend is recreation spending, which has eased in line with slower gains in tourism activity.

Household spending is likely to remain solid in 2025, supported by government stimulus, thereby helping PEI's overall growth remain firm. Lower borrowing costs and rising housing activity should also offer tailwinds. However, rapidly fading population growth is set to impose a counter-balancing weight on consumption. It remains solid but has cooled to its lowest rate since 2021 on weaker inflows of interprovincial migrants and non-permanent residents (Chart 2). The Island's population is now growing more slowly than the rest of Canada – a notable reversal of a trend in place from 2016 through 2023.

Construction is likely to add nearly 1 ppt to PEI's economic growth this year. Strength here has been concentrated in the residential sector, although this reflects early-year activity after a subdued 2023. Residential investment has been more modest in recent months, and we've downgraded our profile for housing starts over 2025/2026 given the likelihood of much softer population growth. Yet construction will still likely add to overall GDP growth next year as the provincial government continues with its considerable capital investment plan. The Island's updated capital plan was released in November, and it sees capital spending surging 20% in FY 2025/26.

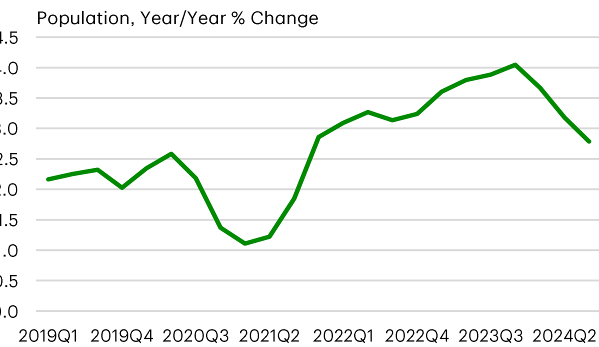
Manufacturing output is likely to record a decent gain in 2024. We're envisioning another moderate gain for the industry in 2025, supported by on-going U.S. economic growth and a low Canadian dollar. Tariff threats loom large, given that over 70% of PEI's exports are U.S. bound. Likewise, nearly 8 in 10 imports come from the U.S., raising the risk that retaliatory Canadian tariffs could impart some upside inflation pressure on PEI's households.

Chart 1: PEI Households Benefitting from an Array of Factors



Source: Statistics Canada, TD, TD Economics.

Chart 2: Non-permanent Residents, Interprovincial Migrants Taking Steam from PEI's Population Growth



Source: Statistics Canada, TD Economics.

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024F	2025F	2026F
Real GDP	2.5	2.1	1.7
Nominal GDP	5.3	4.3	4.0
Employment	4.0	2.3	0.8
Unemployment Rate (%)	7.9	8.2	8.0
Housing Starts (000's)	1.2	1.2	1.3
Existing Home Prices	2.3	5.6	2.5
Home Sales	9.9	6.7	1.7

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

Newfoundland & Labrador

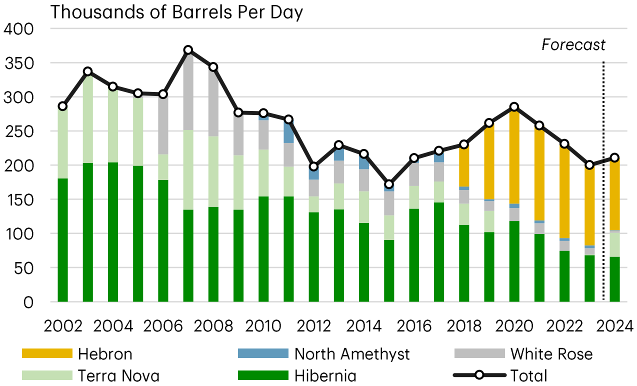
We estimate that Newfoundland and Labrador (N.L.) finally broke out of its economic growth slump this year. Total output had contracted over the past two years as a result of sagging performances across key industries such as oil, mining, and manufacturing. But those tides have turned in a big way, thanks in large part to the restart of the Terra Nova oil vessel that likely set the stage for a 5% rebound in oil production this year (Chart 1). What's more, even as another vessel, SeaRose, undergoes repair for the rest of this year, its resumption will add production momentum into next year and help to drive another strong GDP showing in 2025.

N.L.'s manufacturing industry has also been a bright spot in 2024, especially when compared against Canada's manufacturing sector woes. Shipment volumes are on pace to accelerate by a staggering 30% this year, led by non-durable goods. This should set up a strong hand-off into 2025. Elsewhere, total mining activity is getting a lift from iron ore and nickel production. The mining sector should remain a stronger contributor to growth over the medium-term as mineral exploration expenditures ramp up with support from the provincial Critical Minerals Plan.

N.L. has been better able to diversify its export markets in recent years reflecting its relatively favorable geographical location. In fact, 50% of the province's exports end up in the U.S., much lower than the over 75% share nationally. Much of the remainder is sent to Europe (38%), who as an export destination have gained considerable share (Chart 2). This diversification should provide some insulation against the potential for the new U.S. administration to levy steep tariffs on Canadian exports in coming months.

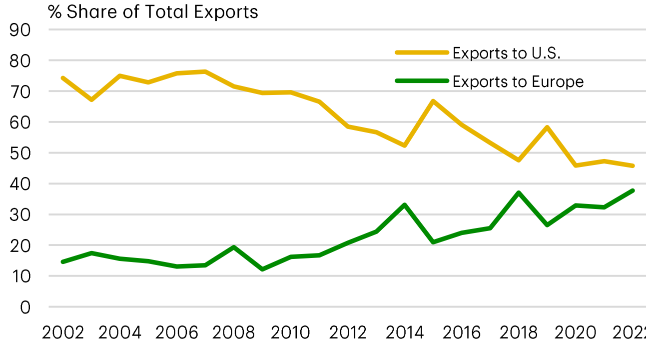
The performance of domestic-oriented industries has held up well this year. N.L. has been leading the provinces in terms of real consumer spending gains–both retail and our internal data–helped by rapid population growth and healthy labour demand. Having said that, population growth, relative to its historical average, in N.L. has begun to moderate at a faster rate than any other province. Despite the prospects for a continued population slowdown, per-household outlays are expected to pick up in the coming quarters with support of more Bank of Canada rate cuts.

Chart 1: Terra Nova Restart Has Helped Lift Newfoundland's Oil Production



Source: Canada-Newfoundland & Labrador Offshore Petroleum Board, TD Economics.

Chart 2: N.L. Increasing Trade Reliance with Europe; Away From the U.S.



Source: Statistics Canada, TD Economics.

NFLD & Labrador Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	3.4	2.5	1.7
Nominal GDP	6.4	4.6	3.9
Employment	2.6	-0.6	0.1
Unemployment Rate (%)	10.0	10.9	11.3
Housing Starts (000's)	1.7	1.4	1.5
Existing Home Prices	8.8	7.3	2.2
Home Sales	8.4	1.6	4.9

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.)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
National	**1.3**	**1.7**	**1.7**	**4.3**	**3.9**	**4.0**	**1.7**	**1.1**	**0.5**	**6.3**	**6.5**	**6.1**	**241.0**	**228.0**	**225.7**	**2.2**	**8.0**	**3.1**
Newfoundland & Labrador	3.4	2.5	1.7	6.4	4.6	3.9	2.6	-0.6	0.1	10.0	10.9	11.3	1.7	1.4	1.5	8.8	7.3	2.2
Prince Edward Island	2.5	2.1	1.7	5.3	4.3	4.0	4.0	2.3	0.8	7.9	8.2	8.0	1.2	1.2	1.3	2.3	5.6	2.5
Nova Scotia	1.9	1.4	1.3	4.6	3.5	3.5	3.2	0.1	-0.1	6.4	6.5	6.9	7.2	6.4	6.3	6.8	6.4	2.5
New Brunswick	1.4	1.4	1.3	3.7	3.4	3.4	3.0	1.0	-0.1	7.0	6.8	7.3	6.2	5.8	3.7	10.4	7.6	3.2
Québec	1.2	1.3	1.3	4.2	3.3	3.6	0.6	1.0	0.5	5.4	5.7	5.4	46.3	46.0	50.0	7.3	7.0	2.9
Ontario	1.3	1.5	1.8	4.3	3.6	3.9	1.6	1.3	0.4	6.9	6.9	6.4	75.2	70.5	69.0	0.3	6.4	2.7
Manitoba	1.3	1.8	1.7	3.9	3.6	3.8	2.6	2.1	0.9	5.3	5.3	5.0	7.2	6.9	6.4	6.3	7.3	3.2
Saskatchewan	1.9	1.9	1.8	4.8	4.1	4.0	2.2	1.3	0.7	5.5	5.5	5.3	4.4	4.5	4.9	7.2	9.4	4.1
Alberta	2.2	2.0	2.0	5.5	4.4	4.4	2.9	2.2	1.0	7.1	6.8	6.1	47.1	43.6	37.9	10.2	7.4	3.5
British Columbia	1.1	2.2	1.7	4.3	4.7	4.1	1.8	-0.1	0.6	5.6	6.0	5.5	44.5	41.9	44.7	1.3	3.0	2.7

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

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