Provincial Economic Forecast

Growth "Normalization" Underway After Banner 2017

Beata Caranci, SVP & Chief Economist, 416-982-8067
Derek Burleton, Deputy Chief Economist | 416-982-2514
James Marple, Director & Senior Economist | 416-982-2557
Michael Dolega, Director & Senior Economist | 416-983-0500
Rishi Sondhi, Economist | 416-983-8806

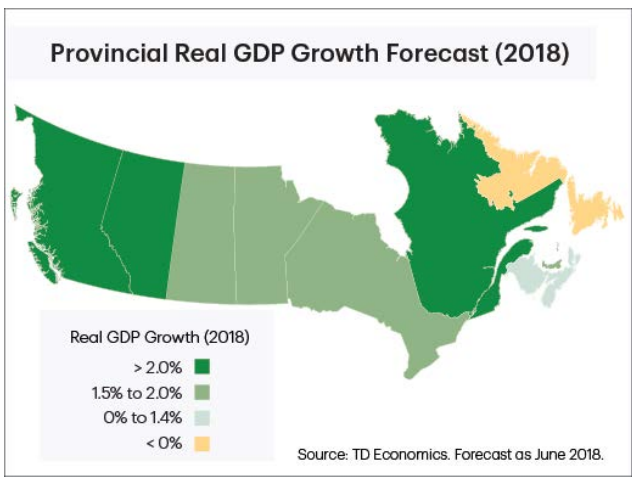
June 19, 2018

Highlights

- Provincial economies are coming off an impressive year, with only three jurisdictions in 2017 turning in growth performances under 3%.
- Looking at growth rates alone conceals an ongoing sizeable divergence in economic conditions from coast to coast. In terms of relative conditions, Ontario, QC, B.C. and P.E.I. remain in the driver's seat, while Alberta, Saskatchewan and N&L are only slowly pulling themselves out of the depths of the recent commodity-led recession.
- Over the next few years, we expect some gradual narrowing in this economic differential, with provincial rates of expansion coalescing within the more moderate 1.5%-2.5% range.
- Protectionist trade policies, rising interest rates and tight labour markets are among the factors that will broadly conspire to normalize growth rates relative to last year.

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

Last year will go down as one of the strongest and broadest provincial growth performances since the turn of the century, as just three provincial economies expanded by less than 3%. But, looking at growth rates alone conceals an ongoing sharp divergence in overall economic conditions. The economies of Ontario, B.C., Quebec and P.E.I. remain in the driver's seat, while commodity based provinces are merely slowly pulling themselves out of the depths of the recent commodity-related recession. A further narrowing in regional performances is in the cards for the next two years, as most provincial growth rates cool from last year's red-hot pace due to little, if any, economic slack, protectionist trade policy (particularly in the U.S.), and rising interest rates.

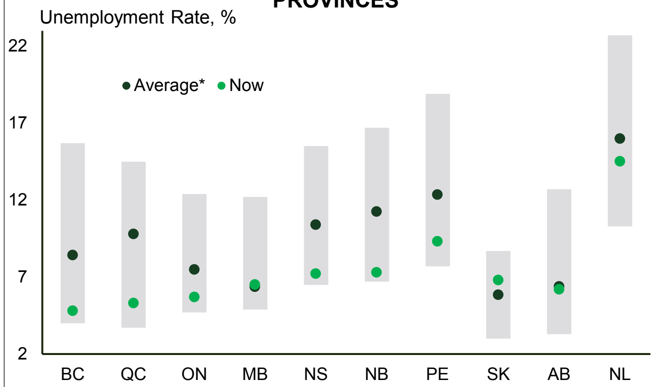


Source: TD Economics. Forecast as June 2018.

2017 a pleasant surprise

This edition of the Provincial Economic Forecast (PEF) incorporates recently-released GDP by industry estimates for 2017,

CHART 1: UNEMPLOYMENT ACROSS PROVINCES



* Average since Jan. 1976
Source: Statistics Canada via Haver Analytics, TD Economics

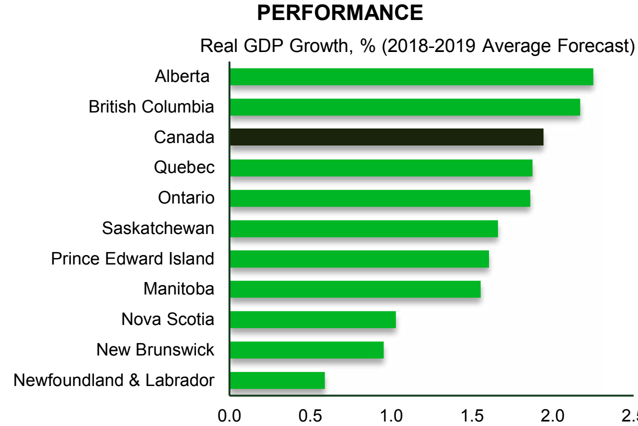
which provide an accurate depiction of last year's activity on an expenditure basis. Particularly notable were the snap back in activity in oil-producing Alberta (+5%) and Saskatchewan (+3%), while growth in Newfoundland & Labrador (+2%) remained in positive territory for the second straight year on the back of rising crude oil output. These provinces – together with a Quebec economy that has been on a tear recently – were top contributors to Canada's economic acceleration last year. Elsewhere, British Columbia and Ontario, despite housing market volatility, continued to show consistent strength, registering their fourth straight year of 3%+ economic growth. Finally, Manitoba and P.E.I. should also be highlighted for their above-trend showings.

Growth still on track to normalize

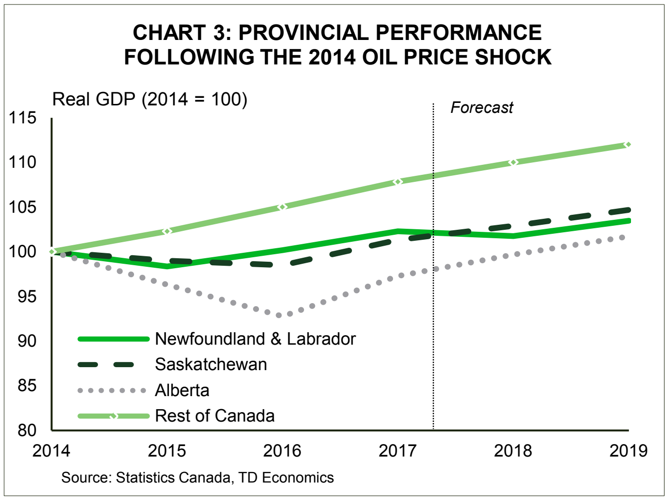
A repeat of such impressive performances would be a challenging feat in any year. However, our expectation for a return to more sustainable rates of expansion in the 2018-19 period is reinforced by recent economic developments, including:

- *Diminishing economic slack:* while signs of economic tightness are not uniform from coast to coast, provincial unemployment rates have generally fallen to the low end of the 30-year range across most regions. Moreover, job market vacancy rates, a tell-tale sign of increased growing job skills mismatch, have been on a rise recently. Businesses are responding by hiking wages, utilizing various immigration programs, and increasing budgets on labour-saving technologies. While these actions can help raise output, they will not completely overcome fundamental economic limits that are ultimately tied to labor force growth and productivity gains.
- *Tighter regulation and credit:* housing activity has been ratcheting down since the start of the year, partly reflecting the implementation of tighter B-20 lending guidelines by OSFI. Indeed, the pull-back in sales post implementation has been pronounced, particularly in the most expensive markets across B.C. and Ontario. On the positive side, real estate data for May showed signs of stabilization. However, while the B-20 impacts seem to be dissipating, mortgage rates will to continue to rise going forward. The Bank of Canada is likely to be cautious in raising rates, but nonetheless press ahead with removing monetary accommodation. Moreover, rising inflation in the U.S. will motivate the Federal Reserve to tighten policy, with spillover to Canadian bond yields and mortgage rates.
- *Trade uncertainty:* the recent imposition by the United States of tariffs on Canadian steel and aluminum exports and retaliatory measures by Canada will be growth-dampening, primarily in Quebec and Ontario. So far, the negative impact on growth in 2018 has been to a large extent offset by stronger-than-anticipated momentum in domestic-oriented spending and investment. However, should the tariffs remain, the drag will become much more visible.

CHART 2: PROJECTED REGIONAL ECONOMIC PERFORMANCE



Source: Forecast by TD Economics as of June 2018



Moreover, the prospect of an escalating trade war remains a key risk for the country as well as nearly all provincial economies, especially those in Canada's manufacturing heartland, with sentiment likely to come under pressure.

Abstracting from these downside factors, provincial economies still appear to be set for a decent showing over the near-to-medium term. Tailwinds to regional expansion include prospects for solid investment gains in domestic-driven industries and rising wages, which will provide ongoing support to household spending. The near-term external picture also contains some bright spots. U.S. economic growth has been upgraded for 2018, providing some benefits to Canadian exporters. Furthermore, oil prices have been running higher than we had envisaged, offering a near-term income boost to Alberta, Saskatchewan and Newfoundland & Labrador.

Regional divergence to narrow gradually

At first glance, last year's performance in Alberta and, to a lesser extent, Saskatchewan appear to show renewed strength. However, upon closer inspection, it becomes apparent that this is not, in fact, the case. For instance, Alberta's real GDP is still running below its 2014 level, with the 2015/16 downturn more severe than the Great Recession. The jobless rate in the province has managed to decline to near 6%, which is down from its recession peak of 9% but still about 1.5 percentage points above its pre-recession level. The economies of Saskatchewan and N&L are also operating at relatively low levels compared to their historical experience.

Large differentials are also manifesting in provincial fiscal performances, with the governments of Alberta, Saskatchewan and N&L facing significant red ink in the coming years. On the other hand, Quebec, P.E.I., N.S. and B.C. all recorded surpluses in the last fiscal year. In Ontario, the jury is out whether, and to what extent, the newly-elected provincial government may step back into deficit in light of tax and spending commitments made during the election campaign. Beyond the near term, economic growth among the provinces should coalesce within a narrower range in 2019 as structural factors come to bear over cyclical movements from housing policy adjustments and oil price swings.

BRITISH COLUMBIA

B.C.'s economy grew at an eye-popping 3.9% rate in 2017, capping a tremendous four-year stretch for the province. Nearly every major industry recorded gains, paced by a 10% surge in construction output. Production was weaker in some resource-based sectors. Still, these account for a relatively small portion of GDP.

While B.C.'s economy was on fire in 2017, this likely marked the high point for growth. Several indicators point to a cooling in activity in recent months. Full-time job growth has gone from being off-the-charts to merely decent. At the same time, wage growth is picking up significantly. Ongoing job growth and rising wages should ensure continued healthy household spending going forward, though 2017's spending spree will be a tough act to follow.

Home sales are significantly lower year-to-date, slammed by the recent backup in interest rates, the B-20 implementation, and a litany of provincial measures. Additional near-term downward pressure is likely as provincial policies continue to weigh, although markets should stabilize in the latter part of the year. Notably, the B.C. government eased up on the new housing speculation tax amid public backlash, lowering the rate faced by Canadians and B.C. residents and applying it less broadly. Weaker housing demand should result in a slower pace of housing construction, as builders pull-back after two extremely busy years. However, solid population growth and an ultra-low supply of unsold inventories should limit the extent of the decline. In the non-residential sector, the on-going Site C dam project will continue to support spending.

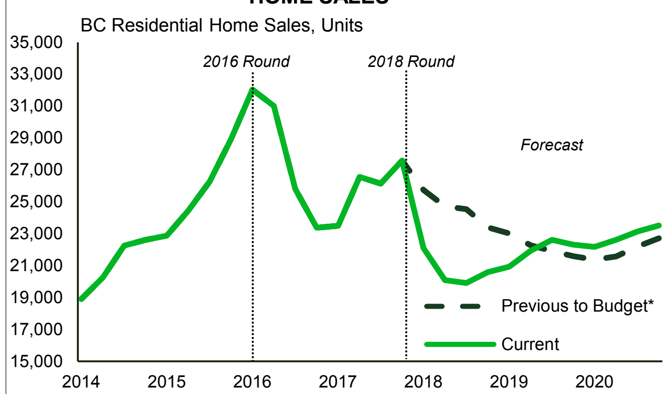
Exports were flat in the first quarter relative to their year-ago level, weighed down by energy and forestry products, with the latter contending with U.S. tariffs on softwood lumber. Ultimately, firm U.S. and Chinese demand should allow exports to keep their head above water during the next few years, although recently imposed tariffs on aluminum products by the U.S., if maintained, should weigh on related shipments.

BRITISH COLUMBIA ECONOMIC FORECASTS
[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	3.9	2.4	1.9
Nominal GDP	6.2	4.2	3.7
Employment	3.7	0.6	0.5
Unemployment Rate (%)	5.1	4.8	4.9
Consumer Price Index	2.1	2.5	2.1
Retail Sales	9.3	2.7	3.5
Housing Starts (000's)	43.5	39.1	33.8
Existing Home Prices	3.4	0.0	3.1
Home Sales	-7.5	-20.3	6.2

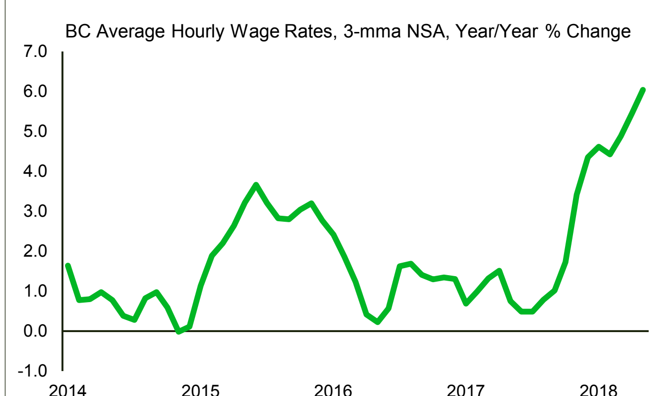
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

CHART 1: IMPACT OF REGULATION ON BC HOME SALES



* As at February 20, 2018 Budget
Source: Canadian Real Estate Association, TD Economics

CHART 2: AVERAGE EARNINGS ON THE RISE



Source: Statistics Canada, TD Economics

ALBERTA

Following a rebound year in 2017, in which the economy advanced by 4.9%, Alberta's rate of expansion is likely to slow to about half that pace in the 2018-19 period. The speed of growth in 2017 largely reflected the rebuilding effort following wildfires and a firming in energy production and investment on the heels of severe weakness in 2015-16. While last year's bounce back in activity was welcome, most indicators in the province continue to point to a subdued economic recovery.

The rise in oil prices over the last several months bodes well for near-term energy production and income growth in the province. While volatile in recent weeks, WTI prices have hovered around the US$70 per barrel, some US$10 higher than our expectation in March. At the same time, the discount applied to the Western Canada Select (WCS) Alberta benchmark, has gone from around US$30 per barrel closer to its longer-run average of US$16, providing an added benefit to Alberta producers.

Still, pipeline capacity will remain a constraint on growth this year. Even if the Trans Mountain pipeline project moves ahead under federal ownership and eventually supports investment in the oil sands, additional capacity will not come online until 2021. This leaves current production constrained. Even as pipelines are built, new fuel standards for the international shipping industry (set to go into effect in 2020) will stem demand for bitumen and keep the WCS spread to WTI elevated.

Meanwhile, the labour market in Alberta continues to recover only gradually. Overall employment has pushed past its pre-recession peak, but private-sector employment is still 6% below it. The unemployment rate fell to 6.2% in May, down from a peak of 9% and will continue to move lower this year and next. Still, it is likely to be several years before pre-recession levels below 5% are reached.

Ongoing job and income growth and a return to positive interprovincial net-migration will support the province's housing market, but following last year's rebuilding efforts, housing starts are likely to come in lower over the next two years. On the resale side, activity has been impacted by new B20 regulations, with sales rising in the lead up to January and falling 20% over the first four months of the year. Oversupply likely to remain a factor causing average prices to fall modestly this year and next.

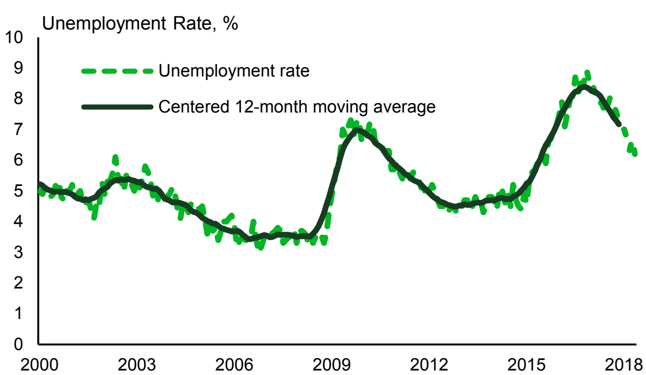
ALBERTA ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	4.9	2.5	2.0
Nominal GDP	8.2	5.9	5.0
Employment	1.0	1.8	1.4
Unemployment Rate (%)	7.8	6.4	6.1
Consumer Price Index	1.5	2.4	2.2
Retail Sales	7.1	2.4	4.3
Housing Starts (000's)	29.3	28.0	28.9
Existing Home Prices	0.2	-2.6	0.1
Home Sales	4.3	-7.2	8.8

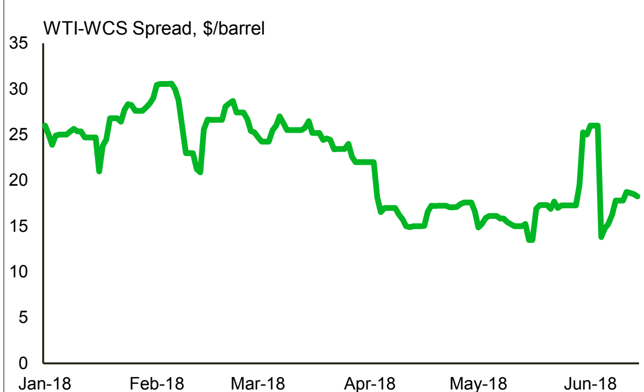
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

CHART 1: STILL A LONG WAY TO GO TO NORMAL IN ALBERTA



Source: Statistics Canada, TD Economics

CHART 2: HEAVY CRUDE PRICE DIFFERENTIAL HAS NARROWED



Source: Bloomberg, TD Economics

SASKATCHEWAN

Like its neighbour to the west, Saskatchewan's economy rebounded from two years of recession with better-than expected growth of 2.9% in 2017. Saskatchewan is set for another year of positive growth, but at a slower 1.6% rate in 2018. The province stands to benefit from recent increases in crude oil prices on the back of a return to more balanced global markets. Offsetting the economic support from energy production will likely be a reduction in uranium production and low prices for potash, natural gas and other key mineral exports. As mining activity gains some renewed traction in 2019, growth should edge up to 1.8%.

Other factors also point to slower 2018 momentum. Year-to-date (to May), employment is down 0.2% from its level in 2017. The unemployment rate has been volatile, but shot up to 6.8% in May, just 0.2 percentage points below its cycle-peak. Wage growth, which was flat in 2017, has returned positive, but is running below the rate of inflation. This has weighed on retail sales, which were down 1.2% year-to-date in March relative to the same time last year due mainly to falling sales of motor vehicles.

The agricultural sector, which was hit by drought in 2017, subtracted from growth that year. This should turn positive in 2018, but dry conditions in parts of the province pose a downside risk to this outlook. The good news is that agricultural prices for key Saskatchewan crops such as wheat and canola have been rising, supporting farm income and production.

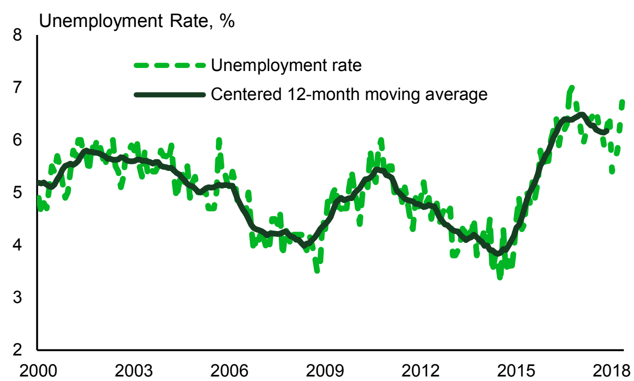
The economy will receive little support from the housing market due to oversupply. The sales-to-new-listings ratio in the province is close to an all-time low. Sales have been week to start the year, keeping downward pressure on prices. Slow price growth is also limiting construction. Housing starts have fallen through the early part of the year and are expected to average some 40% below 2017 levels.

SASKATCHEWAN ECONOMIC FORECASTS
[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	2.9	1.6	1.8
Nominal GDP	6.4	4.9	4.7
Employment	-0.1	0.0	1.0
Unemployment Rate (%)	6.3	6.0	5.6
Consumer Price Index	1.7	2.5	2.3
Retail Sales	4.1	1.0	4.3
Housing Starts (000's)	5.0	3.0	3.2
Existing Home Prices	-2.1	-1.0	3.1
Home Sales	-2.5	-2.4	8.7

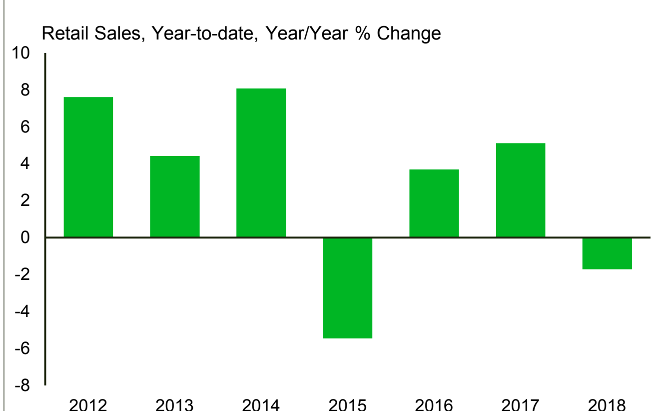
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

CHART 1: LOTS OF ROOM FOR IMPROVEMENT IN SASKATCHEWAN LABOUR MARKET



Source: Statistics Canada, TD Economics

CHART 2: A SOFT START FOR RETAIL SALES



Last data point: March 2018. Source: Statistics Canada, TD Economics

MANITOBA

Manitoba's economy surprised on the upside last year, as it grew at its fastest pace since 2012. The construction, finance, insurance & real estate (FIRE) and healthcare & social assistance industries made significant contributions to growth, with a helping hand coming from increased manufacturing output. However, the economy lost some steam in the early part of 2018, thanks in part to softer retail spending, weaker homebuilding and strained rail capacity, which hindered shipments of grain products. Looking ahead, we expect growth to ease from its break-neck 2017 pace, coming in at 1.8% and 1.5% in 2018 and 2019, respectively.

More moderate job gains and sluggish wage growth have brought down real consumer spending gains to a more sustainable pace this year. In light of higher interest rates, rising auto insurance premiums and a 3.6% increase in electricity rates, household spending gains are expected to remain modest in the near term. Housing construction will also likely ease from a 2017's unsustainable rate, as homebuilders respond to elevated unsold inventories and softer demand. Late last year, Vale put its Birchtree mine in maintenance and closure status, resulting in lost production and job cuts. Together with the closure of another mine scheduled for late 2018, significantly softer output is expected in this sector going forward. Finally, after surging in 2017, agricultural sector output will likely be more muted this year.

On the positive side of things, solid U.S. economic growth should result in improved manufacturing activity, though ongoing NAFTA negotiations remain a major risk to the outlook. Fortunately, the recently announced U.S. tariffs on steel and aluminum products should have little direct impact on Manitoba, given their tiny share of overall exports. Non-residential building investment, which advanced in the first quarter, will receive a near-term boost from work on a $400 million pea-processing plant. Further support will come from a large-scale expansion of an existing food processing facility, slated to begin this year.

The provincial government's latest budget outlined a slow-and-steady approach to balance, though the net debt-to-GDP ratio is expected to inch higher to 34.3% this fiscal year. Spending projections point to an acceleration in government spending this year, followed by weaker growth thereafter.

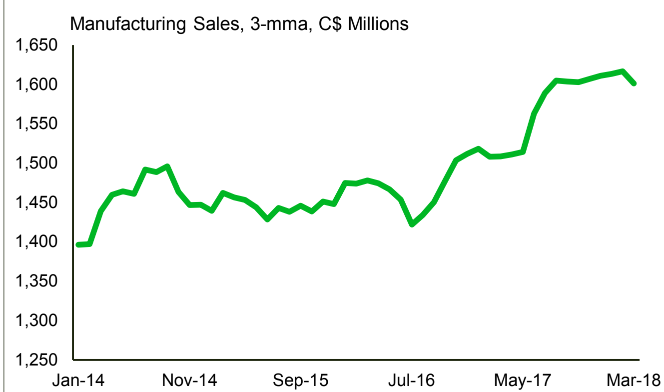
MANITOBA ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	2.9	1.8	1.5
Nominal GDP	4.6	4.0	3.5
Employment	1.6	0.5	0.9
Unemployment Rate (%)	5.4	5.8	5.4
Consumer Price Index	1.6	2.9	2.2
Retail Sales	7.8	0.1	4.0
Housing Starts (000's)	7.6	5.8	4.6
Existing Home Prices	3.4	1.8	4.1
Home Sales	-0.8	-4.3	4.8

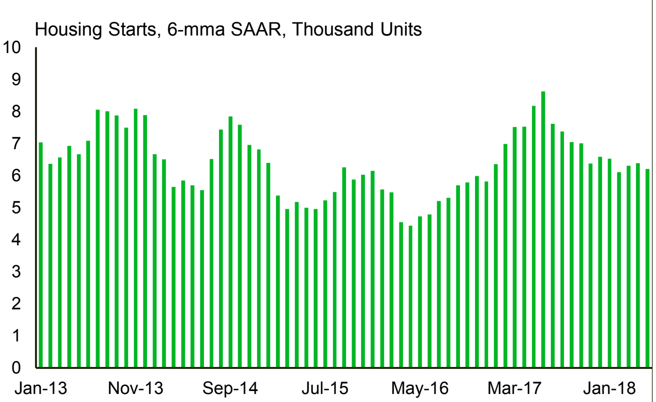
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

CHART 1: MANITOBA MANUFACTURING SALES



Source: Statistics Canada, TD Economics

CHART 2: MANITOBA HOUSING STARTS



Source: Canada Mortgage and Housing Corporation, TD Economics

ONTARIO

Broad gains in service industries drove Ontario's economy to a 2.8% gain in 2017, crowning an impressive four year stretch. Healthy domestic demand has been at the core of the strength, underpinned by the consumer. But, highly-indebted households and softer housing activity will cause real GDP to cool to just under 2% this year and next.

All eyes are on provincial housing markets, where sales activity has fallen significantly amid rising borrowing costs and updated mortgage rules. Sales are on track to decline again in the second quarter, before stabilizing later this year. In fact, some positive early signs already emerged in the data for May. Sharp knee-jerk impacts from lending rule changes tend to be short-lived. Overall, the fundamental backdrop remains constructive, with the economy likely to continue adding modest jobs amidst healthy population growth.

Evidence from the labour market suggests the impact of minimum wage hikes varies by industry, with retail jobs hardest hit thus far. Difficulty in filling vacancies amid tight labour markets is expected to be another factor pulling job creation down to a more sustainable rate, with the unemployment rate expected to hold at around the 5.7-5.8% mark over coming quarters. However, an acceleration in wages is expected to help keep household incomes and spending at a moderate clip.

On the trade front, rising U.S. protectionism is a major downside risk to the outlook. The recently enacted steel and aluminum tariffs will be a blow for Ontario exporters. While the direct hit to the provincial economy should be modest, the impacts could be amplified through heightened uncertainty. The U.S. government is also investigating tariffs on Canadian automotive exports – potentially a huge setback for Ontario – while ongoing NAFTA negotiations provide further uncertainty. On the plus side, strengthening U.S. demand should provide some near term support to exports and production.

The recent provincial election resulted in a decisive victory for the Progressive Conservative Party, which campaigned on a platform of tax cuts and smaller government. The economic impact of the policy changes will be incorporated once a budget is tabled. Financing tax cuts with deficits could provide a near-term boost to the economy, although at the expense of higher fiscal vulnerability.

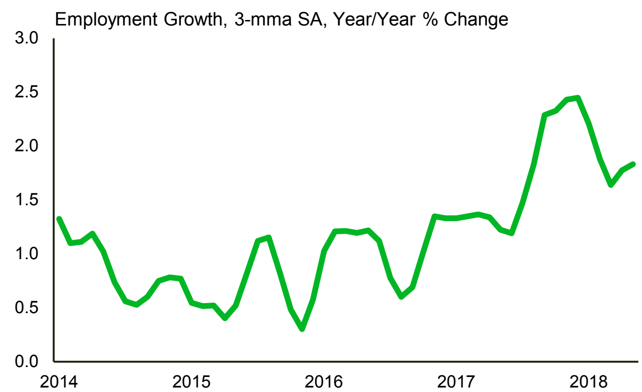
ONTARIO ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	2.8	1.9	1.8
Nominal GDP	4.5	3.9	3.9
Employment	1.8	1.2	0.5
Unemployment Rate (%)	6.0	5.7	6.0
Consumer Price Index	1.7	2.5	2.3
Retail Sales	7.7	3.5	3.8
Housing Starts (000's)	80.1	74.0	74.9
Existing Home Prices	8.9	-3.3	3.9
Home Sales	-9.6	-19.7	8.5

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

CHART 1: ONTARIO JOB GROWTH



Source: Statistics Canada, TD Economics

CHART 2: ONTARIO HOME SALES

Source: Canadian Real Estate Association, TD Economics

QUÉBEC

Quebec's economy is estimated to have grown at an impressive 3.1% rate in 2017 – the fastest pace since the heady days of the tech bubble in the late 1990s. GDP growth eased significantly in the fourth quarter, though underlying details were better. For instance, domestic demand surged by around 5% (annualized) during the quarter. And, while net trade took a big bite out of growth, the main factor was a healthy rise in imports, stoked by solid domestic conditions. Ultimately, Quebec's economy had good domestic momentum heading into this year. Looking ahead, we expect growth to step back from its extremely strong 2017 pace amid rising capacity constraints and waning economic slack. That said, growth should still average around a 2% rate during 2018/2019 period.

Employment growth is easing from its extremely robust 2017 rate, albeit on the back of slowing part-time job creation. Full-time job growth has been much stronger and with wages expanding at a decent clip, consumer spending should remain well supported going forward. However, in an environment of rising interest rates, a repeat of last year's robust increase is unlikely.

Housing activity has held up relatively well in Quebec, with sales down "only" 2% in the first quarter in response to B-20 guidelines and recent increases in borrowing costs. For 2018 overall, we expect sales to trend higher, as firm job markets more than offset the impact of demand from eroding affordability. Homebuilding should remain healthy this year, supported by rising prices, though an increase over 2017's elevated level will likely prove to be a tall order. Construction on the large-scale Romaine hydroelectric project is beginning to wind down, which should place downward pressure on non-residential spending.

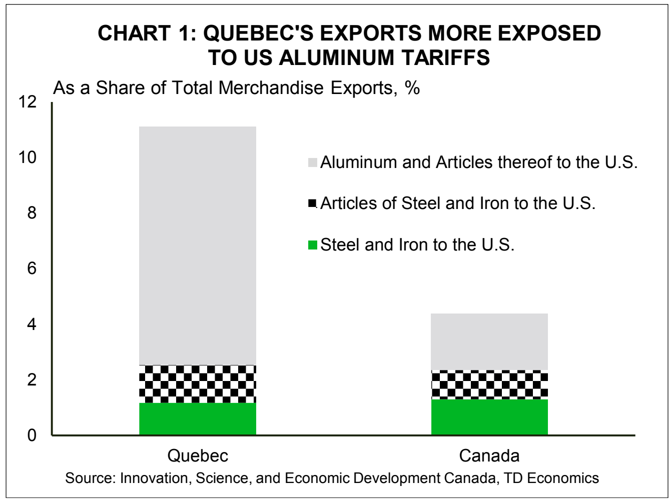
Healthy foreign demand is expected to provide some support to exporters. However, there are a number of challenges on the trade front. The ongoing NAFTA negotiations continue to muddy the outlook. Moreover, the impact of the steel and aluminum tariffs enacted by the U.S will likely fall disproportionately on Quebec, given their relatively large share (about 11% - largely aluminum products) of overall exports. Although the direct economic hit of the tariffs is estimated to be around 0.1-0.2 ppts, financial support offered to producers by the Quebec government could mitigate this impact.

QUEBEC ECONOMIC FORECASTS

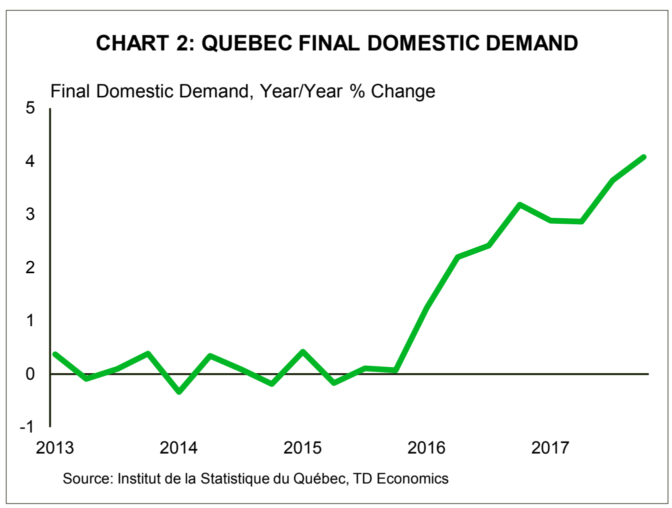
[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	3.1	2.2	1.6
Nominal GDP	5.3	3.8	3.6
Employment	2.2	1.2	0.5
Unemployment Rate (%)	6.1	5.5	5.5
Consumer Price Index	1.1	2.2	2.0
Retail Sales	5.5	4.2	3.2
Housing Starts (000's)	46.1	48.1	44.6
Existing Home Prices	4.4	4.3	4.3
Home Sales	5.7	5.0	5.6

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



Source: Innovation, Science, and Economic Development Canada, TD Economics



Source: Institut de la Statistique du Québec, TD Economics

NEW BRUNSWICK

New Brunswick's economy churned out above-average growth in 2017, supported by healthy gains in construction and manufacturing as well as consumer spending. Manufacturing activity remained brisk in the early part of 2018, as increased homebuilding in the U.S. fueled vigorous gains in wood product shipments. Momentum is also building in the wholesale sector, with sales rising at a healthy clip in the first quarter. In contrast, retail spending appears to be slowing from 2017's elevated pace.

After contracting for several years, New Brunswick's population has been steadily rising since 2016, supported by federal policies aimed at boosting immigration. With the federal government raising immigration targets through 2020, the province's population is projected to continue expanding. This should support continued advances in retail spending while helping to mitigate an anticipated moderation in construction and home sales. It should also lead to a growing labour force, which in turn could pressure up the province's unemployment rate modestly over the next few years.

Healthy U.S. demand should support manufacturing activity going forward, though with NAFTA talks set to stretch into next year, trade uncertainties will linger. Notably, exports of forestry products have held up so far in 2018, despite softwood lumber tariffs imposed on major producers in the province late last year. Robust economic activity south of the border and a competitive dollar will also be a boon for the province's tourism sector.

After advancing at a sizzling pace in 2017, homebuilding is likely to come off the boil this year, in line with weaker permit issuance in recent months. Housing starts retrenched significantly in the first quarter, consistent with this view. Home sales are also likely to decline in 2018, dampened by tighter federal lending guidelines and rising interest rates, before rebounding slightly in 2019. In the non-residential sector, building activity is also likely to ease after a banner year in 2017, flagged by softer investment spending intentions. However, some support should emerge from a large turnaround project at the Irving Oil facility and increased spending by NB Power. All told, we expect real GDP growth to slacken to about 1% annually over the next few years.

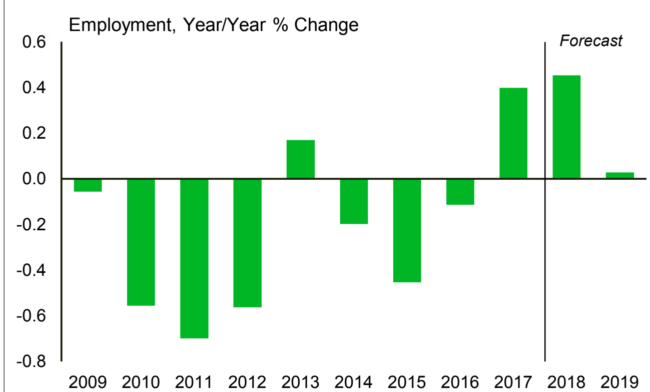
NEW BRUNSWICK ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	1.9	1.0	0.9
Nominal GDP	4.4	3.1	3.2
Employment	0.4	0.5	0.0
Unemployment Rate (%)	8.1	8.1	8.3
Consumer Price Index	2.3	2.5	2.2
Retail Sales	6.8	1.7	2.9
Housing Starts (000's)	2.3	1.7	1.8
Existing Home Prices	2.9	3.4	3.9
Home Sales	6.9	-5.3	1.0

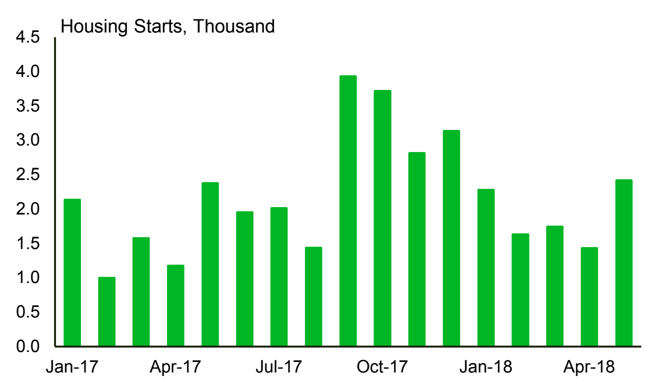
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

CHART 1: NEW BRUNSWICK EMPLOYMENT



Source:Statistics Canada, TD Economics

CHART 2: NEW BRUNSWICK HOUSING STARTS



Source: Canada Mortgage and Housing Corporation, TD Economics

NOVA SCOTIA

Nova Scotia's economy advanced at an estimated 1.2% pace in 2017, above the province's 5-year trend, but modest compared to turnouts in the other Atlantic provinces. The oil and gas sector was the main culprit restraining growth last year, which is a trend set to continue over the next few years thanks to the looming closure of two major offshore natural gas facilities. In terms of positives, the economy was given a nice boost last year by strong retail spending growth, which found support from rising employment and wages.

Above-trend economic growth has sparked sturdy job gains, with full-time employment up a solid 3% so far this year. With wages also growing at a healthy clip, retail spending is poised for another good year in 2018. Household spending will be further supported by income tax cuts for individuals earning less than $75k, implemented in January. Another bright spot has been exports, which advanced by 9% year-over-year in the first quarter. The combination of continued firm U.S. demand, solid growth in China and the initiation of the Comprehensive Economic and Trade Agreement with the European Union should keep manufacturing activity solid over the near term.

International migrants have flocked to Nova Scotia in recent years, turning population growth positive and boosting housing construction and home sales. Looking ahead, the province's population will likely continue expanding, though at a slower pace compared to 2017. As a result, homebuilding should ease from the robust pace observed last year. Meanwhile, non-residential investment is likely to drop this year, owing to the completion of a two large-scale construction projects. However, some upside risk is present thanks to BP Canada getting the go-ahead to start drilling a deep-water exploration well off the coast of Halifax. All in, we expect growth to remain around 1.0% for the next few years, not far off the long-term average pace.

Nova Scotia's latest provincial budget contained little in the way of new revenue or spending initiatives, with policy makers instead opting to keep their fiscal house in order through modest spending growth. Accordingly, the net debt-to-GDP ratio is projected to continue its downward trend, providing some increased flexibility to deal with unforeseen events should they arise in the future.

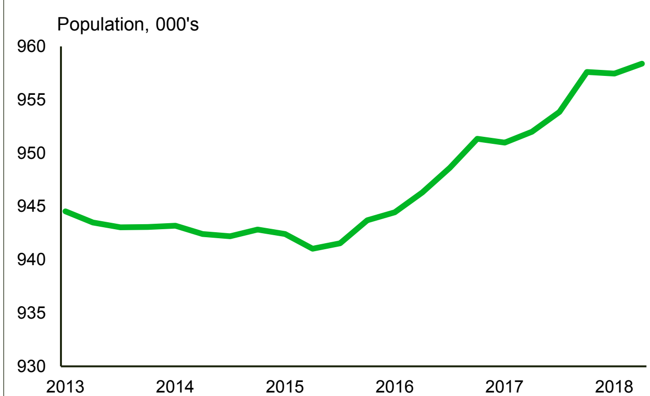
NOVA SCOTIA ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	1.2	1.1	1.0
Nominal GDP	2.7	2.9	3.0
Employment	0.7	1.2	-0.1
Unemployment Rate (%)	8.4	7.7	8.1
Consumer Price Index	1.1	2.5	2.3
Retail Sales	7.8	3.4	2.7
Housing Starts (000's)	4.0	4.0	3.6
Existing Home Prices	3.3	5.2	4.2
Home Sales	4.8	7.4	4.3

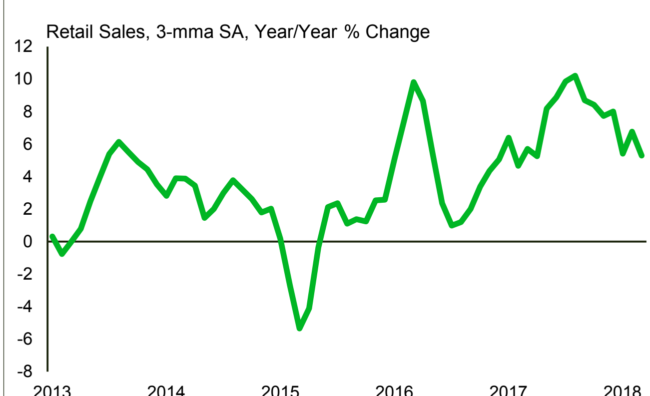
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

CHART 1: NOVA SCOTIA POPULATION



Source: Statistics Canada, TD Economics

CHART 2: NOVA SCOTIA RETAIL TRADE



Source: Statistics Canada, TD Economics

PRINCE EDWARD ISLAND

Last year, PEI's economy expanded at its fastest pace in over a decade, fueled by solid gains in manufacturing, finance, insurance and real estate, and retail spending. Not to be outdone, construction output jumped 20%, with homebuilding on a tear and non-residential spending turning in a healthy showing. The strong momentum built in 2017 carried over into the early part of 2018, setting the stage for another solid year for the province. However, growth is expected to slow to a more sustainable rate in 2019.

PEI's economy is enjoying a population boom the likes of which hasn't been seen in many decades, with the province becoming a popular destination for international migrants. With population growth off to a solid start in 2018, we expect another good year on this front. This should underpin firm retail spending, though some easing from 2017's unsustainable rate is likely. The tourism sector is set to chalk up another strong year following a record 2017, bolstered by healthy U.S. demand and a reasonably competitive loonie. Indeed, Port Charlottetown is expecting an extremely busy season for cruise ships, with the number of visitors expected to top 100,000 for the first time ever. Meanwhile, overnight stays were in line with their elevated 2017 level in the first quarter.

On the negative side of the spectrum, homebuilding will likely cool its jets this year on the heels of a strong gain in 2017. Still, in light of still-sold population fundamentals, starts should remain comparatively elevated through the forecast period. Non-residential spending should also simmer down this year, though ongoing construction of the Trans-Canada Highway extension in Cornwall should provide some support.

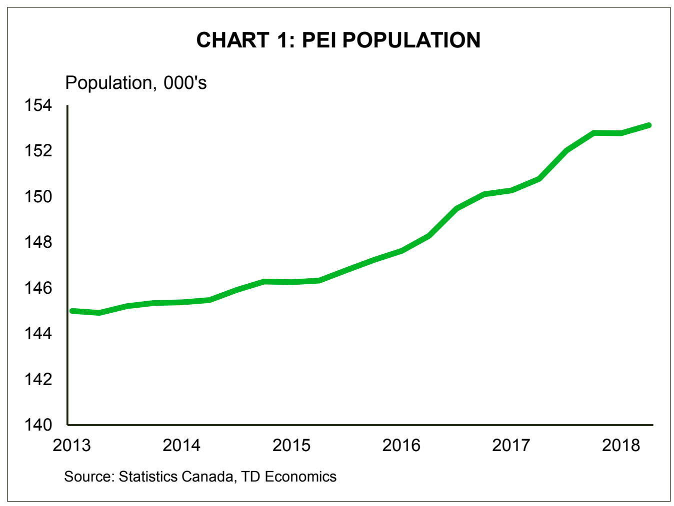
In their latest provincial budget, the government revealed plans to run small surpluses over the next few years while offering modest tax relief to households and small businesses. Spending is projected to advance solidly this fiscal year, with some easing penciled in thereafter. Net debt-to-GDP is projected to drop over the medium term, putting the province on a track towards improved fiscal fitness while leaving it remaining less indebted relative to its Atlantic Region peers.

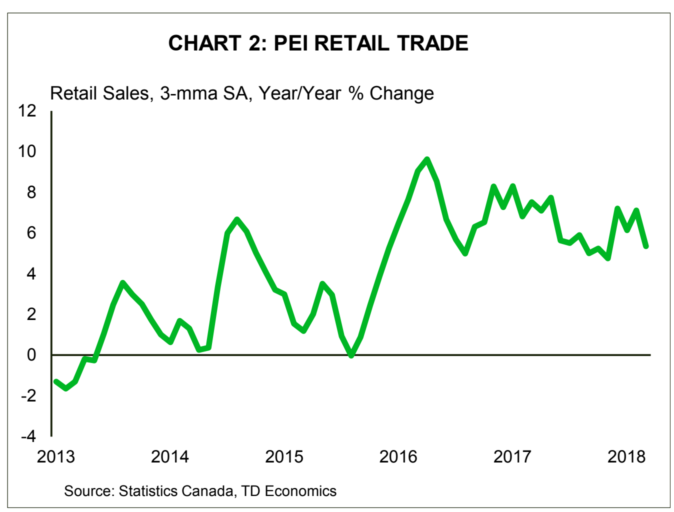
P.E.I. ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	3.2	2.0	1.3
Nominal GDP	5.0	4.1	3.3
Employment	2.9	2.2	0.0
Unemployment Rate (%)	9.8	10.3	10.3
Consumer Price Index	1.8	2.4	2.4
Retail Sales	6.3	5.1	3.9
Housing Starts (000's)	1.0	0.7	0.8
Existing Home Prices	14.0	5.0	4.6
Home Sales	4.2	-8.3	8.4

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





NEWFOUNDLAND & LABRADOR

Contrary to expectations, the Newfoundland and Labrador economy managed to grow in 2017, by 2.1%. Rising oil and gas production was the main contributor to growth, but construction, which had pulled back the previous two years, also contributed positively.

Falling investment as energy projects move from the development to the production phase implies a likely decline in activity in Newfoundland and Labrador in 2018. The completion of the Muskrat Falls project will also weigh on growth over the next year. Still, ongoing oil production increases from Hebron and White Rose will provide an offset, and should allow for a return to modest economic growth in 2019. The rise in the Brent oil price bodes well for the province's energy sector and overall performance. Brent has risen nearly 15% since the start of the year (outpacing the WTI benchmark by some 5 percentage points) as global supply has underperformed expectations.

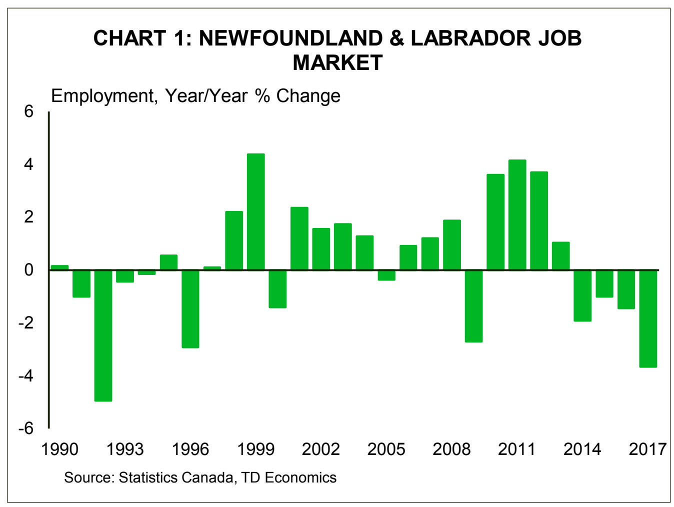
Energy production will contribute importantly to GDP and government coffers, but is unfortunately not a major job creator. Oil extraction, while representing 13.2% of economic output, accounts for just 1.3% of total employment in the province. As a result, the shift from more labour-intensive construction and development to production is an even stronger headwind to future job growth. Employment in the province has fallen for the past four years and is likely to continue to edge lower over the forecast. Still, with an aging population and outmigration, the unemployment rate is likely to remain fairly close to its current level above 14%.

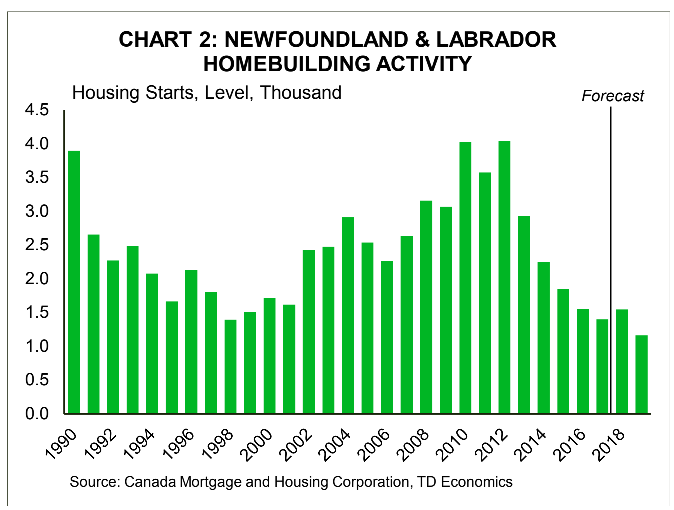
Reflecting, the demographic challenge, housing activity is likely to remain soft. While housing starts jumped early this year, helping to raise the annual average relative to 2017, they have since fallen back and are likely to continue to edge lower. Meanwhile, as in other provinces, resale activity has plummeted in the aftermath of new B20 regulations. With a sales-to-listing ratio well in buyers' market territory (and the lowest in roughly two decades) average home prices are likely to continue to fall.

NFLD & LABRADOR ECONOMIC FORECASTS
[Annual average % change, unless otherwise noted]

	2017	2018	2019
Real GDP	2.1	-0.5	1.7
Nominal GDP	5.7	3.3	4.1
Employment	-3.7	-0.4	-0.2
Unemployment Rate (%)	14.8	14.4	14.7
Consumer Price Index	2.4	2.3	2.3
Retail Sales	2.4	0.2	3.2
Housing Starts (000's)	1.4	1.5	1.2
Existing Home Prices	-2.4	-3.3	2.1
Home Sales	-4.0	-2.3	2.8

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





PROVINCIAL ECONOMIC FORECASTS

REAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	2.9	1.0	1.4	3.0	2.0	1.8
N. & L.	-0.9	-1.7	1.9	2.1	-0.5	1.7
P.E.I.	0.3	1.3	2.3	3.2	2.0	1.3
N.S.	1.1	1.4	0.8	1.2	1.1	1.0
N.B.	0.1	2.4	1.2	1.9	1.0	0.9
Québec	1.8	1.0	1.4	3.1	2.2	1.6
Ontario	2.7	2.9	2.6	2.8	1.9	1.8
Manitoba	2.1	1.3	2.2	2.9	1.8	1.5
Sask.	2.1	-1.0	-0.5	2.9	1.6	1.8
Alberta	6.2	-3.7	-3.7	4.9	2.5	2.0
B.C.	3.7	3.5	3.5	3.9	2.4	1.9

F: Forecast by TD Economics as at June 2018.

Source: Statistics Canada / Haver Analytics

NOMINAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	4.9	0.2	2.0	5.4	4.2	4.0
N. & L.	-0.5	-11.5	2.6	5.7	3.3	4.1
P.E.I.	1.7	3.9	4.0	5.0	4.1	3.3
N.S.	2.9	2.1	2.8	2.7	2.9	3.0
N.B.	1.8	2.0	3.6	4.4	3.1	3.2
Québec	3.0	2.4	2.7	5.3	3.8	3.6
Ontario	4.4	5.0	4.3	4.5	3.9	3.9
Manitoba	3.1	3.3	2.3	4.6	4.0	3.5
Sask.	-0.4	-5.4	-4.0	6.4	4.9	4.7
Alberta	10.0	-12.0	-4.9	8.2	5.9	5.0
B.C.	5.7	4.0	4.8	6.2	4.2	3.7

F: Forecast by TD Economics as at June 2018.

Source: Statistics Canada / Haver Analytics

EMPLOYMENT Annual average per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	0.6	0.9	0.7	1.9	1.1	0.6
N. & L.	-1.9	-1.0	-1.4	-3.7	-0.4	-0.2
P.E.I.	-0.5	-0.9	-2.2	2.9	2.2	0.0
N.S.	-1.1	0.1	-0.4	0.7	1.2	-0.1
N.B.	-0.2	-0.5	-0.1	0.4	0.5	0.0
Québec	-0.1	1.0	0.9	2.2	1.2	0.5
Ontario	0.8	0.7	1.1	1.8	1.2	0.5
Manitoba	0.1	1.5	-0.5	1.6	0.5	0.9
Sask.	1.0	0.6	-0.9	-0.1	0.0	1.0
Alberta	2.2	1.2	-1.6	1.0	1.8	1.4
B.C.	0.6	1.3	3.1	3.7	0.6	0.5

F: Forecast by TD Economics as at June 2018.

Source: Statistics Canada / Haver Analytics

UNEMPLOYMENT RATE Annual, per cent						
	2014	2015	2016	2017	2018F	2019F
CANADA	6.9	6.9	7.0	6.3	5.9	5.9
N. & L.	11.9	12.8	13.4	14.8	14.4	14.7
P.E.I.	10.6	10.4	10.7	9.8	10.3	10.3
N.S.	9.0	8.6	8.3	8.4	7.7	8.1
N.B.	9.9	9.8	9.5	8.1	8.1	8.3
Québec	7.7	7.6	7.1	6.1	5.5	5.5
Ontario	7.3	6.8	6.5	6.0	5.7	6.0
Manitoba	5.4	5.6	6.1	5.4	5.8	5.4
Sask.	3.8	5.0	6.3	6.3	6.0	5.6
Alberta	4.7	6.0	8.1	7.8	6.4	6.1
B.C.	6.1	6.2	6.0	5.1	4.8	4.9

F: Forecast by TD Economics as at June 2018.

Source: Statistics Canada / Haver Analytics

CONSUMER PRICE INDEX (CPI) Annual average per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	1.9	1.1	1.4	1.6	2.5	2.3
N. & L.	1.9	0.4	2.7	2.4	2.3	2.3
P.E.I.	1.6	-0.6	1.2	1.8	2.4	2.4
N.S.	1.7	0.4	1.2	1.1	2.5	2.3
N.B.	1.5	0.5	2.2	2.3	2.5	2.2
Québec	1.4	1.1	0.7	1.1	2.2	2.0
Ontario	2.3	1.2	1.8	1.7	2.5	2.3
Manitoba	1.8	1.2	1.3	1.6	2.9	2.2
Sask.	2.4	1.6	1.1	1.7	2.5	2.3
Alberta	2.6	1.2	1.1	1.5	2.4	2.2
B.C.	1.0	1.1	1.9	2.1	2.5	2.1

F: Forecast by TD Economics as at June 2018.

Source: Statistics Canada / Haver Analytics

RETAIL TRADE Annual average per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	5.1	2.6	5.2	7.1	3.1	3.6
N. & L.	3.7	0.7	0.4	2.4	0.2	3.2
P.E.I.	3.5	2.6	7.3	6.3	5.1	3.9
N.S.	2.8	0.2	4.7	7.8	3.4	2.7
N.B.	3.7	2.2	2.1	6.8	1.7	2.9
Québec	2.6	1.9	6.6	5.5	4.2	3.2
Ontario	5.7	5.3	6.9	7.7	3.5	3.8
Manitoba	4.2	1.3	3.7	7.8	0.1	4.0
Sask.	4.7	-3.3	1.5	4.1	1.0	4.3
Alberta	7.9	-4.0	-1.1	7.1	2.4	4.3
B.C.	6.3	7.0	7.7	9.3	2.7	3.5

F: Forecast by TD Economics as at June 2018.

Source: Statistics Canada / Haver Analytics

PROVINCIAL ECONOMIC FORECASTS

HOUSING STARTS Thousands of units						
	2014	2015	2016	2017	2018F	2019F
CANADA	189.1	193.6	197.9	220.3	205.9	197.5
N. & L.	2.3	1.8	1.6	1.4	1.5	1.2
P.E.I.	0.5	0.5	0.5	1.0	0.7	0.8
N.S.	3.1	3.9	3.7	4.0	4.0	3.6
N.B.	2.3	1.9	1.8	2.3	1.7	1.8
Québec	39.1	36.7	38.6	46.1	48.1	44.6
Ontario	58.6	69.0	74.8	80.1	74.0	74.9
Manitoba	6.2	5.6	5.3	7.6	5.8	4.6
Sask.	8.3	5.2	4.8	5.0	3.0	3.2
Alberta	40.6	37.5	24.6	29.3	28.0	28.9
B.C.	28.3	31.5	42.1	43.5	39.1	33.8

F: Forecast by TD Economics as at June 2018.

Source: CMHC / Haver Analytics

HOUSING STARTS Per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	0.6	2.4	2.2	11.3	-6.6	-4.1
N. & L.	-21.3	-18.1	-15.9	-10.1	10.6	-24.8
P.E.I.	-18.5	3.7	0.0	80.6	-31.8	24.4
N.S.	-21.7	26.2	-4.2	9.4	-2.2	-8.1
N.B.	-17.8	-16.1	-5.0	22.9	-25.2	4.3
Québec	3.9	-6.2	5.3	19.4	4.3	-7.3
Ontario	-3.8	17.8	8.5	7.1	-7.6	1.2
Manitoba	-17.6	-10.2	-4.5	43.6	-24.3	-20.5
Sask.	-0.1	-37.6	-6.0	2.4	-38.9	6.9
Alberta	12.5	-7.5	-34.5	19.3	-4.5	3.3
B.C.	4.4	11.4	33.7	3.4	-10.1	-13.5

F: Forecast by TD Economics as at June 2018.

Source: CMHC / Haver Analytics

EXISTING HOME SALES Thousands of units						
	2014	2015	2016	2017	2018F	2019F
CANADA	484.6	510.7	540.8	515.6	450.1	482.3
N. & L.	4.2	4.2	4.1	3.9	3.8	3.9
P.E.I.	1.4	1.7	2.1	2.1	2.0	2.1
N.S.	9.1	9.4	10.1	10.6	11.4	11.9
N.B.	6.3	6.7	7.4	7.9	7.5	7.6
Québec	70.6	74.1	78.1	82.6	86.7	91.6
Ontario	206.1	226.2	245.4	222.0	178.3	193.4
Manitoba	13.8	14.0	14.5	14.4	13.8	14.5
Sask.	13.5	12.0	11.3	11.1	10.8	11.7
Alberta	75.1	59.3	54.8	57.2	53.1	57.7
B.C.	84.1	102.5	112.2	103.8	82.7	87.8

F: Forecast by TD Economics as at June 2018.

Source: Canadian Real Estate Association

EXISTING HOME SALES Per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	6.2	5.4	5.9	-4.7	-12.7	7.2
N. & L.	-3.4	2.2	-3.9	-4.0	-2.3	2.8
P.E.I.	-0.5	19.1	22.2	4.2	-8.3	8.4
N.S.	-0.6	3.4	7.7	4.8	7.4	4.3
N.B.	-0.1	6.5	11.1	6.9	-5.3	1.0
Québec	-0.8	5.0	5.4	5.7	5.0	5.6
Ontario	4.0	9.7	8.5	-9.6	-19.7	8.5
Manitoba	0.4	1.7	3.8	-0.8	-4.3	4.8
Sask.	2.7	-10.8	-5.6	-2.5	-2.4	8.7
Alberta	11.4	-21.0	-7.6	4.3	-7.2	8.8
B.C.	15.2	21.9	9.5	-7.5	-20.3	6.2

F: Forecast by TD Economics as at June 2018.

Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE Thousands of C$						
	2014	2015	2016	2017	2018F	2019F
CANADA	407.5	441.0	487.1	507.0	483.1	500.3
N. & L.	285.4	277.0	257.8	251.7	243.6	248.6
P.E.I.	165.8	164.0	178.9	204.0	214.1	224.0
N.S.	214.4	218.7	221.7	229.0	240.9	250.9
N.B.	161.0	159.2	161.0	165.7	171.4	178.1
Québec	268.1	271.9	280.5	292.9	305.6	318.8
Ontario	428.8	460.7	531.1	578.3	559.0	580.8
Manitoba	264.7	268.2	276.3	285.7	290.7	302.6
Sask.	303.1	301.2	299.0	292.6	289.8	298.7
Alberta	401.6	393.7	395.0	395.9	385.7	386.1
B.C.	570.5	637.2	681.3	704.6	704.5	726.5

F: Forecast by TD Economics as at June 2018.

Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE Per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	6.8	8.2	10.4	4.1	-4.7	3.6
N. & L.	0.6	-2.9	-6.9	-2.4	-3.3	2.1
P.E.I.	6.9	-1.1	9.1	14.0	5.0	4.6
N.S.	-0.2	2.0	1.4	3.3	5.2	4.2
N.B.	-0.2	-1.1	1.1	2.9	3.4	3.9
Québec	0.2	1.4	3.1	4.4	4.3	4.3
Ontario	6.8	7.4	15.3	8.9	-3.3	3.9
Manitoba	1.5	1.3	3.0	3.4	1.8	4.1
Sask.	5.4	-0.6	-0.7	-2.1	-1.0	3.1
Alberta	5.6	-2.0	0.3	0.2	-2.6	0.1
B.C.	6.1	11.7	6.9	3.4	0.0	3.1

F: Forecast by TD Economics as at June 2018.

Source: Canadian Real Estate Association

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.