Provincial Economic Forecast
Economic Growth and Job Markets Diverge in 2019

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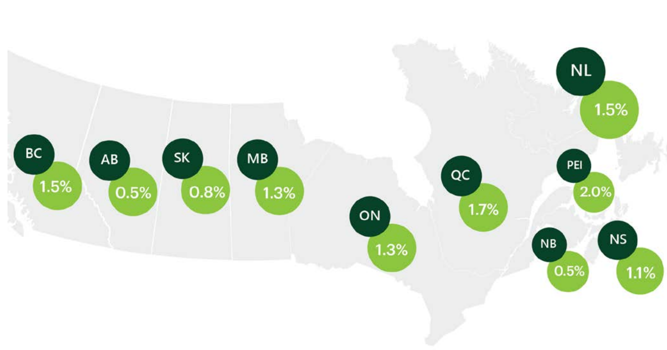
- As we had anticipated, economic growth in most regions has been gaining some traction of late after a challenging start to the year. For the full year, growth is expected to run from a low of 0.5% in Alberta and New Brunswick to 2% in Prince Edward Island. These modest rates are largely unchanged from our March forecast.
- Underlying this subdued picture for output and spending is surprising strength in job markets. Even with an assumed normalization in hiring trends going forward, job growth forecasts have been upgraded this year in eight of ten provinces, notably in Ontario and British Columbia. Ongoing resilience in job markets, alongside a recent reduction in borrowing rates, is expected to support continued household spending gains from coast to coast over the forecast period.
- B.C.'s economy and job market are still expected to advance this year despite a deep slowdown in housing activity. We look for stabilization in home sales during the second half of 2019, with prices likely to reach a bottom during 2020. Continued solid prospects for non-residential investment should provide some offset to weakness on the residential side.
- Alberta's economy is expected to eke out minimal expansion this year, before recording a slight acceleration in 2020. Mandated oil production curtailment so far this year has yielded stronger bitumen prices. However, business and household spending remain hampered by concerns around medium-term energy investment. Likewise, the Manitoba and Saskatchewan economies are encountering growth-limiting headwinds, notably soft global agriculture conditions and slowing population growth. As these pressures ease next year, growth should pick up closer to trend.
- On the heels of a growth downshift since mid-2018, economic "green shoots" have been evident of late in Ontario and Quebec. Of the two, Quebec would appear to enjoy the growth edge, owing in part to fiscal stimulus and strong housing momentum. Ontario's fiscal picture remains challenging, with government spending restraint set to weigh on its near-term economic performance.
- Growth in the Atlantic region for this year is largely unchanged from our March view. PEI is likely to chalk up another solid year for growth, while Newfoundland & Labrador records an improvement from its tepid 2018 rate. More modest growth performances are expected for New Brunswick and Nova Scotia.

Provincial Real GDP Growth Forecast (2019)



Source: TD Economics. Forecast as of June 2019.

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

British Columbia

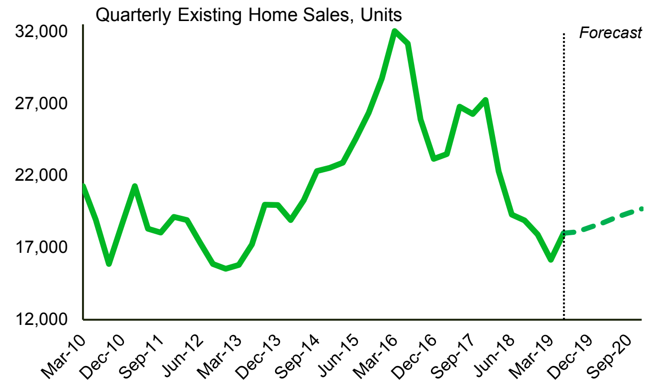
While real GDP growth in B.C. moderated in 2018, the estimated gain of 2.4% outstripped the national average for the fifth straight year. A surge in natural gas output and robust expansion in residential and non-residential construction and transportation & warehousing activity propelled last year's advance. Looking ahead, we anticipate a further slowdown to a below-trend rate in 2019, largely on the back of the recent slump in housing activity. Provided that housing gains some traction in 2020 – as we expect – economic growth should regain some momentum.

The adjustment underway in the province's housing markets to both government policy changes and higher interest rates over the past few years has been sharper and more prolonged than we had anticipated. Declines in resale activity (Chart 1) and average prices accelerated this year, while the market balance in the Greater Vancouver Area has sunken well into buyer's territory. That said, with much of the speculative froth having been removed from the market and interest rate trends recently turning more favourable, sales are likely to begin firming in the second half of the year. Still, some residual softness in home prices and homebuilding is expected to linger into 2020.

A key factor that has helped insulate the economy from the spill-over impacts of declining housing activity is ongoing resilience in labour markets. The province maintains the country's lowest unemployment rate and a historically-high core age participation rate. By any measure, employment in B.C. is growing at an unsustainably rapid clip this year, setting the stage for a significant moderation in 2020.

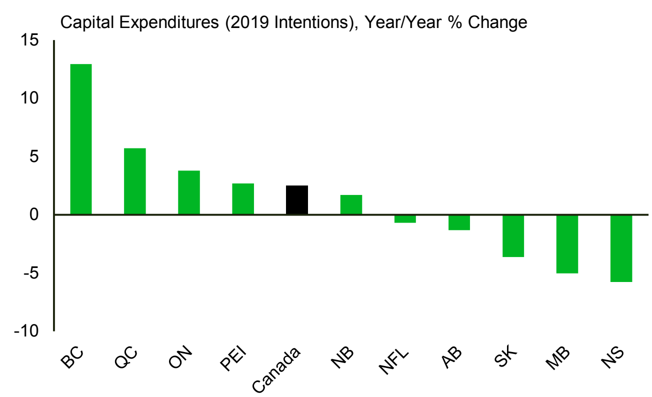
Meanwhile, prospects for engineering and non-residential investment remain bright. As measured by StatCan's Capital and Repair Expenditures Survey, B.C. topped the nation (Chart 2). Large scale projects, including LNG Canada, the associated pipeline will help to sustain non-residential construction going forward. A late-2018 surge in non-residential building permits further confirms this narrative. Additionally, labour market tightness and an absense in spare productive capacity is likely to incentivize investment. But while the outlook for non-residential investment remains strong for the most part, one area of near-term downside risk surrounds the export sector, which is expected to struggle amid weak conditions in the forestry sector, a slowing Chinese economy, and growing trade tensions.

Chart 1: B.C.'s Resale Market is Expected to Stabilize



Source: CREA, TD Economics, Forecast by TD Economics as of June 2019

Chart 2: B.C. Topped the Country for Growth in 2019 Capital Spending Intentions



Source: Statistics Canada, TD Economics

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	2.4	1.5	2.0
Nominal GDP	4.7	3.5	4.4
Employment	1.1	3.1	0.8
Unemployment Rate (%)	4.7	4.6	4.7
Housing Starts (000's)	40.9	42.1	34.9
Existing Home Prices	0.9	-7.9	-0.6
Home Sales	-24.5	-9.8	8.8

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

Alberta

Alberta's 2019 growth prospects were dealt a severe blow late last year by extreme softness in heavy oil prices. The good news is that the mandated oil output curtailment has secured a sustained improvement in heavy oil prices (Chart 1). Still, investment and spending in the province have been slow to respond (Chart 2). We anticipate a moderate rebound in real GDP growth in 2020, but those gains will likely be narrowly concentrated in oil output, belying continued weakness in the broader economy.

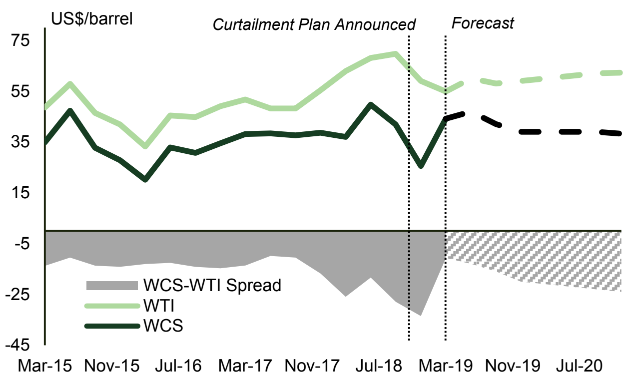
Despite an easing in oil output restrictions in recent months, near-term risks surrounding prices are tilted to the downside. Globally, price benchmarks have weakened since May, reflecting an escalation in trade tensions and oversupply concerns. In response, we have nudged down our 2019 and 2020 WTI price outlook. Within the Alberta oil patch, elevated stockpiles of crude have been slow to work down amid an unexpected softening in exports and crude-by-rail shipments in Q1. Fortunately, exports have shown signs of strengthening, boding well for a rebalancing heading into 2020.

The environment for oilpatch investment is likely to remain challenging. Further regulatory setbacks and a delay to the start-up of operations on Line 3 has only clouded the outlook further. Petroleum and chemical manufacturing remains one area of expansion and provides opportunities for longer-term diversification.

The province's labour markets have weathered the recent growth slump better than expected. At the same time, this year's steady employment picture suggests that any rebound on tap next year will be modest at best. In turn, consumers are likely to remain cautious to spend, while the province's housing markets continue to struggle amid continued excess supply. On the plus side, a bounce back in home resale activity this spring provides some early hints that housing demand is beginning to turn the corner.

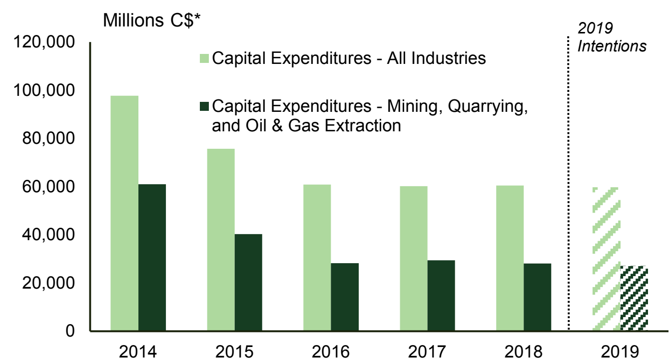
The newly-elected government will table its first budget in the autumn, with a cut to corporate taxes already announced. However, one challenging task will be to make good on its goal to slay the estimated $6.9 billion provincial deficit by FY2022-23, a year earlier than promised by the previous government. A freeze to operating expenses may be on the table since it was implied in the government's election platform.

Chart 1: Curtailment Supported a Rebound in WCS Prices, but Modest Downside Risk Remains



Source: Bloomberg, TD Economics, Forecast by TD Economics as of June 2019

Chart 2: Capital Spending has Remained Virtually Flat in Alberta Since 2016



Source: Statistics Canada, TD Economics
*Estimates for 2018 are preliminary. Data for 2019 represents spending intentions.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	2.0	0.5	2.1
Nominal GDP	3.5	1.9	4.8
Employment	1.9	0.6	1.2
Unemployment Rate (%)	6.6	6.8	6.7
Housing Starts (000's)	26.3	23.4	25.7
Existing Home Prices	-2.4	-3.3	0.0
Home Sales	-7.2	2.3	10.0

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

Saskatchewan

After turning in a decent rebound in 2017, growth in Saskatchewan's economy moderated to an estimated 1.6% pace in 2018. Economic growth is expected to downshift further this year, before gaining some modest traction in 2020.

Improved heavy oil pricing so far this year has been supporting cash flows in the oil patch, though recent declines in global benchmarks partly on the back of tariff worries have muted some of the benefits. The province has not experienced the same production constraints as its neighbor to the west. That said, output and investment prospects will continue to be impeded by elevated uncertainty, especially surrounding market access.

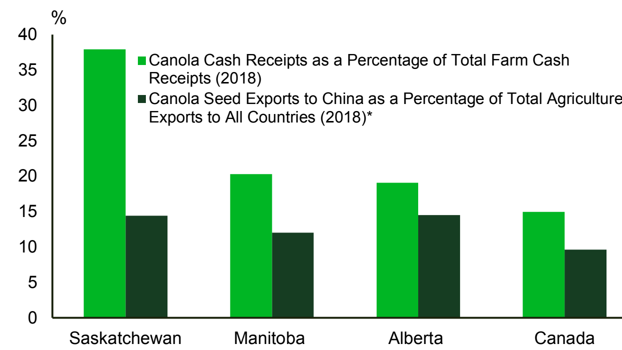
The province's agricultural sector is challenged by a number of headwinds ranging from weak crop pricing to new restrictions on canola seed exports into China (Chart 1). Last year, a surge in farm-related expenses including feed, debt, and energy costs drove a 42% drop in net income. Expense growth is expected to level off this year, but net income will likely remain below its five-year average due to expected softness in farm cash receipts. While crop rotation away from canola can help to mitigate the downside impacts on farm revenue, there are limits to the degree to which rotation can be utilized.

Elsewhere, the uranium industry continues to be challenged by weak global market conditions as well as the impact of the recent indefinite closure of the McArthur River mine. In contrast, the potash industry is enjoying solid momentum this year, with production up more than 7% (ytd) and prices expected to remain steady-to-slightly higher.

An additional bright spot has been the province's labour markets. Job growth is at 2% (ytd), and the unemployment rate has averaged 5.4% so far this year – a substantial improvement relative to the last three years (Chart 2). In turn, this improved employment situation, as well as improved affordability, is expected to support a rebound in home sales in the coming quarters. That said, home building is still expected to remain weak given continued elevated supply.

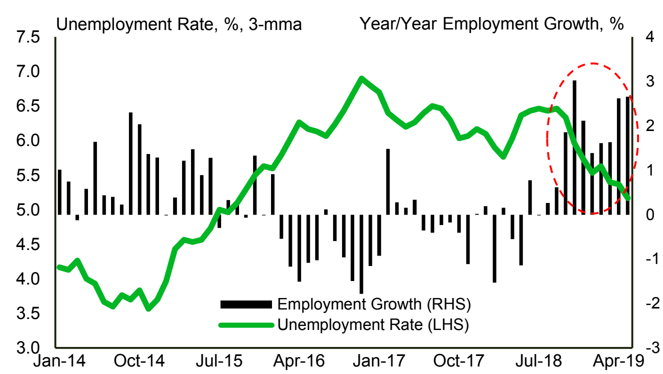
The Saskatchewan government plans to eliminate a $380 million deficit in the current year, a goal that could be challenging given some of the unanticipated softness this year in commodity markets. On the plus side, the Province's still-low net debt-to-GDP ratio continues to provide more flexibility than most of its provincial counterparts.

Chart 1: Saskatchewan's Agricultural Sector is Exposed to the Subdued Canola Outlook



Source: Industry Canada, Statistics Canada, TD Economics
*Data is for domestic exports and excludes support activities, forestry, floriculture, and aquaculture products

Chart 2: Saskatchewan's Labour Market Showing Early Signs of Improvment



Source: Statistics Canada, TD Economics. Last Data Point May, 2019

Saskatchewan Economic Forecasts

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	1.5	0.8	1.2
Nominal GDP	3.2	2.1	3.8
Employment	0.5	1.4	0.7
Unemployment Rate (%)	6.1	5.5	5.8
Housing Starts (000's)	3.6	2.3	4.1
Existing Home Prices	-2.3	-2.0	-0.2
Home Sales	-7.1	7.9	6.9

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

Manitoba

After a robust turnout of around 3% in 2017, Manitoba's economic growth moderated to about half that rate in 2018. Both gains in goods and services production were softer, with the former weighed down by mining industry closures. Meanwhile, services output eased to its slowest pace since at least 1998, clipped by softer retail spending. On the bright side, construction output continued to expand rapidly, boosted by on-going work on the Keeyask power station and the Line 3 Replacement project.

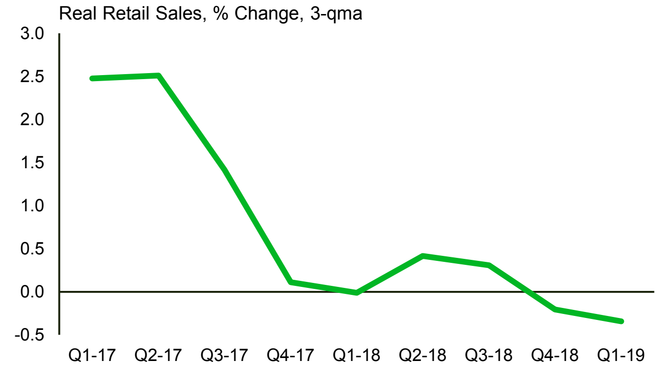
However, we don't anticipate the same contribution from these construction projects moving forward. Work on the Keeyask project should wind down through 2020, while activity on the Canadian portion of the Line 3 pipeline project was nearing completion this spring. These are major factors underpinning our view that growth will ease again in 2019. However, Manitoba's economy is set to recover somewhat in 2020, partly on the back of a more benign interest rate environment than expected a few months ago and an upturn in the economic fortunes of other provinces.

Despite a pull-back in borrowing rates in recent months, consumer spending is likely in for another subdued year in 2019 amid slowing population growth and modest growth in real wages. What's more, while the province has added jobs so far in 2019, all of the gains have been in part-time work. However, the PST will be cut by 1 ppt on July 1st, providing some offset to these factors.

Slowing population growth combined with past rate hikes should keep a lid on home sales in coming months. However, demand will likely see some support in late 2019 from the First Time Homebuyers Incentive. This program will likely be well received amid still-challenging affordability conditions. On the supply side, falling building intentions point to softer homebuilding going forward.

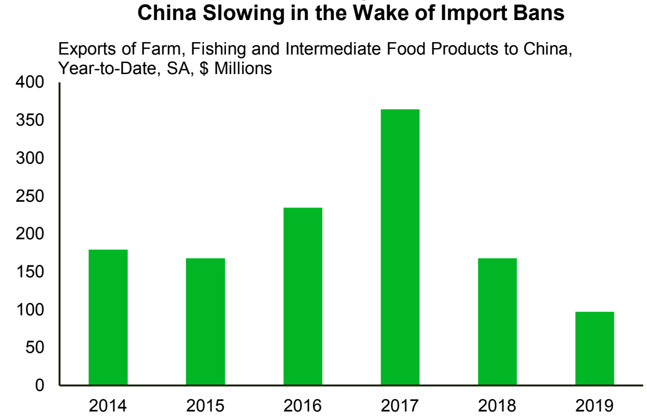
After a strong performance in 2018, exports dropped in the first quarter, weighed down by lower agricultural shipments. Looking ahead, we expect international exports to grow at a slower pace for the remainder of 2019 and 2020, alongside an easing expansion stateside. Growing tensions between Canada and China has left Manitoba in the crosshairs, with falling prices for canola crops depressing farm receipts and nominal GDP growth.

Chart 1: Weak Retail Spending in Manitoba



Source: Statistics Canada, TD Economics

Chart 2: Shipments of Agricultural Products to China Slowing in the Wake of Import Bans



Source: Statistics Canada, TD Economics

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

	2018	2019	2020
Real GDP	1.4	1.3	1.7
Nominal GDP	3.2	3.0	4.1
Employment	0.6	1.4	0.7
Unemployment Rate (%)	6.0	5.4	5.4
Housing Starts (000's)	7.4	6.6	5.5
Existing Home Prices	1.2	1.2	3.9
Home Sales	-5.9	2.7	3.0

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

Ontario

Weakness in late 2018 looks to have lingered into the first quarter, as Ontario's economy likely recorded next to no growth. This weak start to the year leaves growth on track to slow significantly in 2019 following last year's respectable 2.2% outturn. That said, the first quarter details were probably better than the headline, as consumer spending strengthened and machinery and equipment investment increased sharply. This fits with our view that the first quarter was the nadir for growth, with some modest acceleration likely in the cards over the rest of 2019.

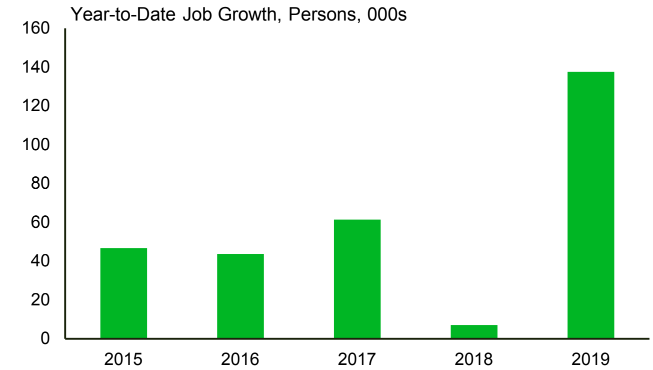
In order to address its sizeable deficit, the provincial government has outlined a plan to reduce spending growth well below its recent trend in coming years. This looming fiscal restraint is expected to exert a drag on growth, particularly in 2020. However, to the extent that Ontario's deficit and debt positons can be put on a more sustainable path, the provincial economy will benefit over the longer haul.

The recent escalation in trade policy uncertainty between the US and China represents a growing risk to Ontario's economy through potential negative impacts on US growth and overall confidence. It's not all bad news for businesses however, as U.S. tariffs on steel and aluminum products were recently dropped. Meanwhile, the deal struck between the U.S. and Mexico which avoids American tariffs on Mexican products should support near-term sentiment as it implies fewer potential roadblocks towards a ratification of the CUSMA trade agreement.

Also on the brighter side, Ontario's labour market is on fire, with 137.5k jobs added this year - eclipsing 2018's full-year tally. Strong job growth has kept consumer spending running at a modest clip in recent quarters, helping ease the sting of past rate hikes. Peering ahead, while the outsized employment gains are likely to moderate in the coming quarters, conditions in job markets are expected to remain strong and supportive to further spending gains.

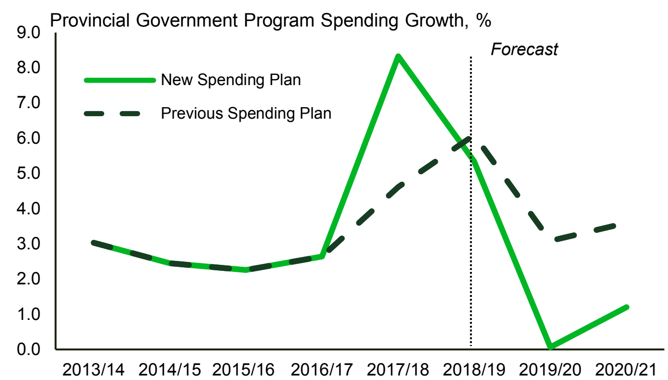
After an adjustment in housing activity that has extended for nearly 2 years, 'green shoots' have recently been observed in Ontario's housing market, underpinned by rapid population growth, falling mortgage rates, and healthy labour markets. Provincial sales have climbed in 3 of the past 4 months, with further gains likely moving forward as demand benefits from healthy fundamentals.

Chart 1: Ontario's Job Market is on Fire



Source: Statistics Canada, TD Economics

Chart 2: Provincial Fiscal Restraint to Weigh on Growth



Source: Provincial Governments, TD Economics

Ontario Economic Forecasts [Annual average % change, unless otherwise noted]	2018	2019	2020
Real GDP	2.2	1.3	1.4
Nominal GDP	3.4	3.6	3.6
Employment	1.6	2.6	0.8
Unemployment Rate (%)	5.6	5.7	5.7
Housing Starts (000's)	79.4	69.4	73.9
Existing Home Prices	-1.7	4.7	4.6
Home Sales	-13.3	7.5	8.0

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

Québec

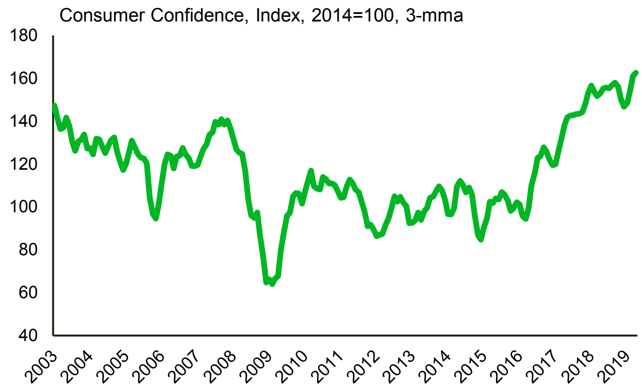
Quebec has not been immune to the softness that has gripped provincial economies since late last year. Growth in Quebec (+1.5%) managed to outperform the national average in the fourth quarter of 2018, but the details were decidedly softer. What's more, the pace of expansion likely slowed further in the opening quarter of 2019, as net trade took a big bite out of growth. This sub-par start to 2019 underpins our view that economic growth will ease to 1.7% this year – still a fairly strong, above-trend showing and notably faster than what is expected for the country overall.

Consumer spending was soft to end last year. Past increases in interest rates were partly to blame, with rate-sensitive motor vehicle sales dragging down the headline. However, household finances are in relatively good shape, consumer confidence is elevated, and labour markets are booming. Indeed, from January to May, nearly 45k (mostly full-time) jobs were created in the province, carving the unemployment rate to an all-time low. These conditions, alongside a more recent pull-back in borrowing costs, fueled a probable pick up in first quarter spending growth. And, these same factors should continue buoying household consumption moving forward.

Against what was a highly uncertain backdrop at the time, business investment took a step back to close 2018. However, this weakness probably turned around in the first quarter. Looking ahead, non-residential spending should continue to rise, boosted by federal and provincial accelerated depreciation measures and a relatively healthy domestic backdrop. On the external front, the recently lifted U.S. tariffs on steel and aluminum products will likely enhance what is already elevated business confidence, particularly as aluminum products are an important export for Quebec. However, overall export growth should ease alongside a slowing U.S. economy. What's more, trade skirmishes between the U.S. and China will likely dent sentiment.

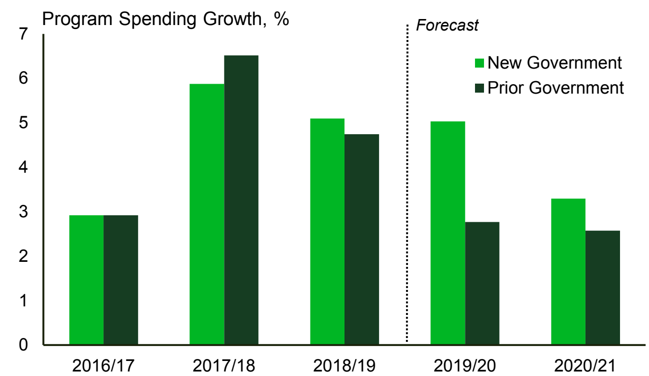
Measures contained in provincial government's 2019/20 budget are growth supportive, combining modest tax relief for households with ramped up program and infrastructure spending. Moreover, policies to enhance the integration of immigrants and temporary foreign workers were introduced in tandem with incentives for older workers to stay in the labour force. These measures will be positive for growth in 2019 and 2020.

Chart 1: Healthy Labour Markets Buoying Consumer Spirits in Quebec



Source: Conference Board of Canada, TD Economics

Chart 2: Ramped Up Government Spending Plans are Growth Supportive



Source: Provincial Governments, TD Economics

Québec Economic Forecasts [Annual average % change, unless otherwise noted]	2018	2019	2020
Real GDP	2.1	1.7	1.7
Nominal GDP	4.2	4.0	3.9
Employment	0.9	1.5	0.6
Unemployment Rate (%)	5.4	5.2	5.5
Housing Starts (000's)	46.9	46.9	43.8
Existing Home Prices	5.3	4.8	3.5
Home Sales	4.8	7.6	5.7

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

New Brunswick

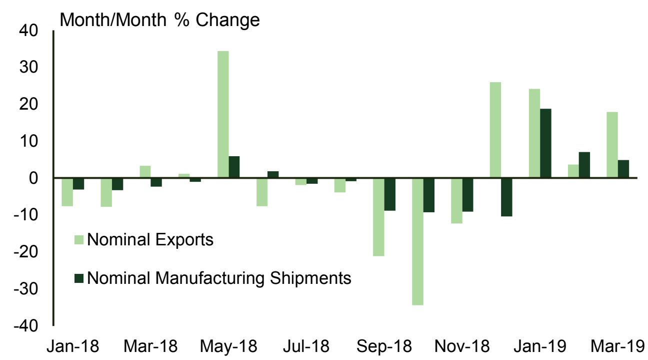
After an impressive run of above-trend growth in 2016 and 2017, New Brunswick's economy came to a virtual standstill last year. Transitory factors in the province's manufacturing sector weighed heavily on the province's expansion to end last year. This weak handoff, a drop in homebuilding so far this year, and a more subdued outlook for exports have put New Brunswick on track to advance by only 0.5% in 2019, tied for last place on the provincial leaderboard. We expect real GDP gains to return closer to trend-like conditions in 2020, but demographic challenges will continue to cap any further upside.

New Brunswick's manufacturing sales and exports took a hit in late 2018 on the back of maintenance and an explosion at its large oil refinery (Chart 1). The sector managed to stage a recovery from these setbacks in the first quarter of the year, but only partially. While further recovery is likely over the second half of the year, the improvement will be muted by weakness in the global market for key forestry and wood products industry, where activity is being held back by low lumber prices, soft demand, and lingering tariffs. The recently implemented CETA and CPTPP trade agreements provide a significant medium-term growth opportunity, particularly within the agriculture and forestry businesses. Also providing some offset to temporary weaknesses in the province's goods sectors is a rising services sector, with several large corporations choosing to establish service centers and offices in the province's cities.

Meanwhile, a one recent bright spot is New Brunswick's labour market, which has been showing signs of firming following last year's lackluster performance. Job growth is up 0.7% (ytd y/y), supported by solid growth in the province's labour force. New Brunswick continues to benefit from a rising population base on the back of record-high international immigration into the province. Still, negative interprovincial migration and a low natural rate continue to act as headwinds to the province's longer-term growth potential.

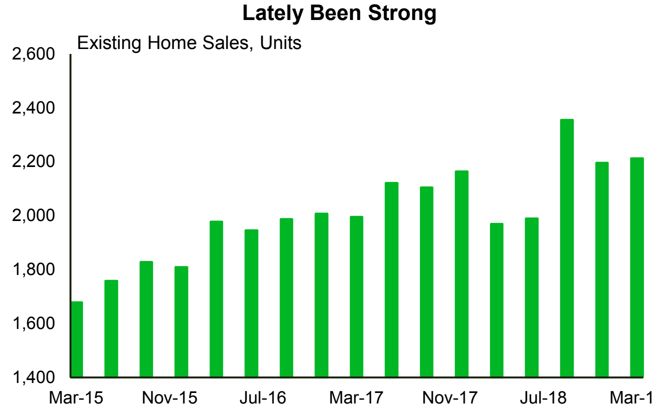
While homebuilding in the province has been weak, the resale market has been strong since the second half of last year. (Chart 2) Indeed, existing home sales are up a noteworthy 15% relative to 2017. In addition to robust immigration, much of this is due to more favourable borrowing rates and supportive affordability conditions.

Chart 1: Partial Recovery Ongoing in New Brunswick's Manufacturing Shipments and Exports



Source: Statistics Canada, TD Economics

Chart 2: New Brunswick's Resale Market Has Lately Been Strong



Source: CREA, TD Economics

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	0.1	0.5	0.9
Nominal GDP	1.0	2.1	2.9
Employment	0.3	0.8	-0.1
Unemployment Rate (%)	8.0	7.9	8.1
Housing Starts (000's)	2.3	1.8	1.9
Existing Home Prices	5.9	3.9	5.6
Home Sales	1.5	6.8	4.7

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

Nova Scotia

On an industry basis, Nova Scotia's economy expanded at a 1.2% rate in 2018, in line with our expectations. This was a respectable outturn for the province, with growth clocking in above the post-recession average. The mining sector supported growth last year, as production at the new Tuoquoy gold mine ramped up. At the same time, oil and gas production moderated and retail spending was soft.

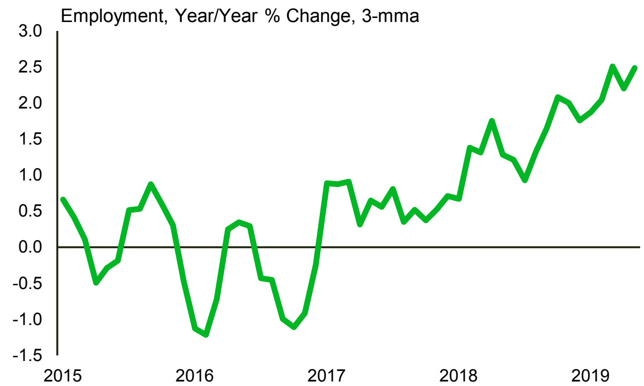
The economy gained some steam in the early part of 2019. Indeed, nearly 10k jobs were created through May, marking the best such performance since 1994. This showed up in consumer spending, with inflation-adjusted retail sales bouncing back in the first quarter. In fact, sales volumes chalked up their best quarter for growth since 2015 in Q1.

Abetting this positive momentum is the 2019/20 provincial budget, which beefed up program and capital spending for this fiscal year. The government also introduced a new accelerated capital cost allowance, which should lift business investment going forward. Further support to investment should come from the decommissioning of the Sable and Deep Panuke natural gas fields. Meanwhile, medium-term spending will be jolted by the construction of two new coast guard patrol ships in Halifax.

Population growth matched a multi-decade high in the first quarter and, more broadly, has been trending higher since 2016. These gains have been fueled mostly be international migration, which likely has some staying power owing to rising federal immigration targets. Robust population growth has sparked gains in home sales and homebuilding, with the former rising so far this year and the latter remaining elevated. Nova Scotia's tight housing market is poised to benefit from the federal government's First-time Home Buyers Incentive, particularly as prevailing home price and income levels fall well within program thresholds.

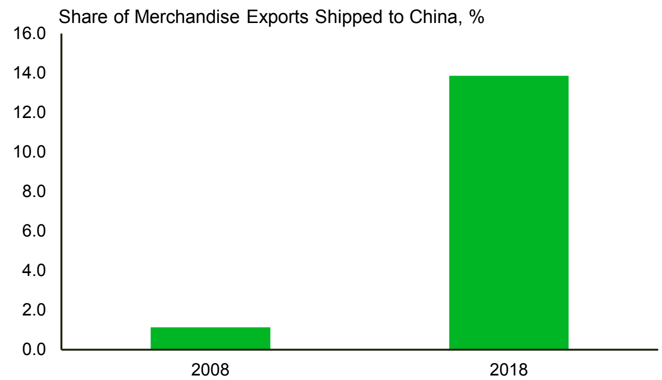
Yet, despite all these positives, we remain hesitant to mark up our growth forecast for this year significantly. This is because heightened trade uncertainty should dampen the expansions in the U.S. and China, thus weighing on exports. Moderating growth in China is particularly impactful, as the share of Nova Scotia's exports shipped to China has risen sharply since 2014. However, should the large-scale Goldboro LNG project get a green light (a final investment decision is due sometime this year), our forecasts will receive a significant upgrade.

Chart 1: Employment Expanding Rapidly in Nova Scotia



Source: Statistics Canada, TD Economics

Chart 2: Nova Scotia Levered to Slowing Chinese Economy



Source: Statistics Canada, TD Economics

Nova Scotia Economic Forecasts [Annual average % change, unless otherwise noted]	2018	2019	2020
Real GDP	1.2	1.1	1.2
Nominal GDP	2.6	3.0	3.1
Employment	1.5	2.2	-0.1
Unemployment Rate (%)	7.6	6.9	7.4
Housing Starts (000's)	4.9	4.0	4.0
Existing Home Prices	3.2	6.7	3.9
Home Sales	5.3	6.1	5.5

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

Prince Edward Island

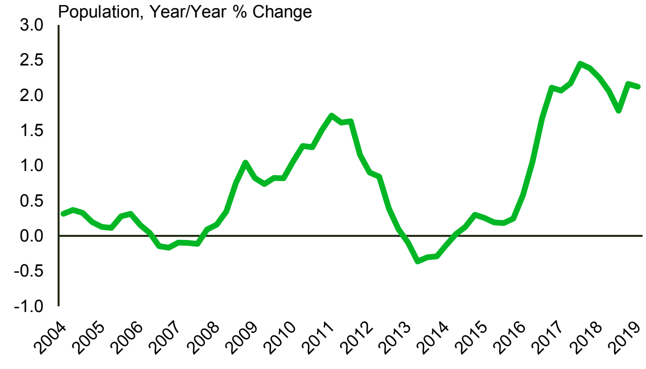
PEI's economy has benefitted tremendously from multi-decade highs in population growth. International migration has fueled this strength, with ramped up federal immigration targets helping newcomers flock to PEI. Historically, the province has had some trouble retaining these immigrants. However, there is some evidence that this may be turning around, with the rate of newcomers leaving for other provinces slowing since 2016.

Robust population growth – and the attendant boost to domestic activity – coupled with sturdy economic conditions stateside propelled a sizzling 2.6% outturn for industry-based GDP in 2018 (we expect that expenditure-based GDP nearly matched this pace last year). This strength found its way to labour markets, with employment up 3.0% and the unemployment rate falling to a record low. These firm trends have been sustained so far in 2019, with payroll employment up solidly in the first quarter. Meanwhile, other sectors are also performing well, with manufacturing shipments higher year-over-year, inflation-adjusted retail spending advancing at a strong clip, government programs supporting a rise in homebuilding, and wholesale trade surging. What's more, tourism activity remained healthy in the first quarter, with overnight stays advancing at a double-digit annual pace. This positive momentum has led us to upgrade our PEI forecast for 2019.

However, we still expect a slower pace of growth in both 2019 and 2020 relative to the outsized performances of recent years. Firstly, with labour markets becoming tighter, it will be hard for job growth to match 2018's torrid performance. Softer employment growth should keep a lid on consumer spending. Meanwhile, past rate hikes combined with strong home price growth in recent years has chipped away at affordability, which is expected to put a damper on near-term home sales activity. On the export side, both the US and global economies have been slowing, which has negative implications for manufacturing and tourism. Finally, the province's latest Capital Budget points to some moderation in infrastructure spending beyond this fiscal year.

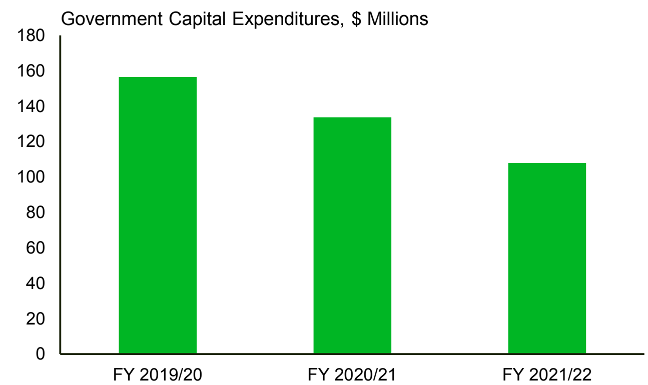
The newly elected PC government's platform contains a modest mix of tax cuts and spending initiatives. Bigger-ticket promises include pledges to cut small business and personal income taxes. The Province is sporting its 3rd largest surplus in nearly 40 years, setting the table nicely for the new government to allocate funding to its key priorities.

Chart 1: Robust Population Growth Boosting Activity in PEI



Source: Statistics Canada, TD Economics

Chart 2: PEI Government's Capital Spending Poised to Slow After this Fiscal Year



Source: PEI Government, TD Economics

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	2.5	2.0	1.3
Nominal GDP	4.3	3.9	3.3
Employment	3.0	0.6	0.1
Unemployment Rate (%)	9.4	9.6	9.8
Housing Starts (000's)	1.0	0.7	1.1
Existing Home Prices	4.5	9.4	4.6
Home Sales	-4.5	-8.7	5.2

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

Newfoundland & Labrador

A ramp-up in oil production, a resumption in iron ore production, and the start of construction on a number of smaller-scale capital projects should support a modest bounce-back in Newfoundland & Labrador's economy this year. In 2020, growth is expected to slip back to a more modest rate as the impact of this year's construction strength fades and demographics continue to weigh on labour force growth.

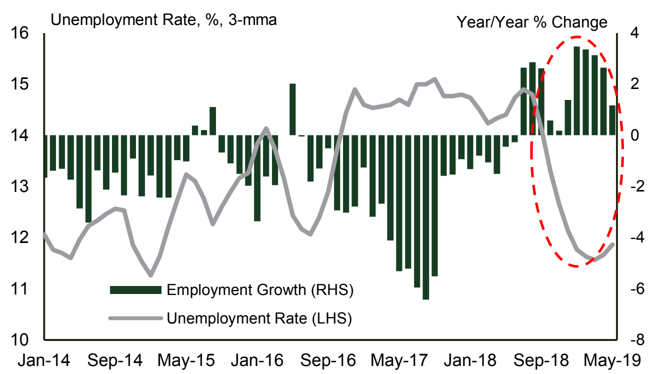
An outlook for increased commodity production this year is instrumental in driving near-term gains in exports and manufacturing activity. For instance, oil production is up 3.5% year-to-date y/y, and is expected to rise further with a ramp up at the Hibernia and Hebron oil fields. The resumption of iron ore production after a two month strike at the Iron Ore Company of Canada in 2018 should also lend a helping hand to export volumes amid a tight global market.

After a subdued 2018, the non-residential construction sector is expected to be a major contributor to growth. Capital spending is projected to receive a boost from the West White Rose field expansion and Voisey's Bay underground mine expansion. Other support could come from pre-development spending on the Bay Du Nord project, if sanctioned, in addition to increased offshore exploration activity.

In contrast, consumer spending is likely to remain tepid. Retail sales are up a modest 2% (ytd y/y) so far in 2019, implying flat volumes growth. This caution is despite signs of an improving labour market, where job and wage growth have recently surprised on the upside (Chart 1). In contrast, housing demand may be starting to respond to the stronger job conditions as well as a recent pull-back in borrowing rates. Resale activity in the province was up more than 7% in Q1 relative to the last quarter of 2018 (Chart 2). The impact of the new federal housing measures, notably the First Time Home Buyer's initiative, is also likely to contribute to a modest uptick in sales this year. While these signals are positive, ongoing demographic pressures will continue to limit the upside potential in the province's housing markets over the medium term.

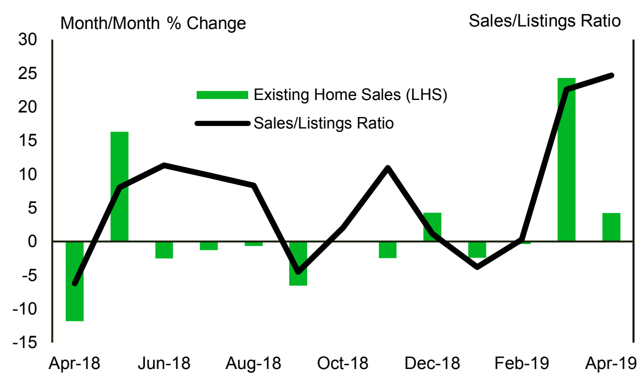
This year, the provincial budget is expected to move back to a balanced position, owing largely to a federal $2.5 billion payment related to the Atlantic Accord. Given that this payment is only one-time (front-loaded), it does little to address a $700 million structural deficit, a gap that the government plans to eliminate by FY2022-23.

Chart 1: Newfoundland & Labrador's Labour Markets Have Recently Surprised on the Upside



Source: Statistics Canada, TD Economics

Chart 2: Newfoundland & Labrador's Resale Market was Decent in Q1 (but Downside Risk Remains)



Source: CREA, TD Economics

NFLD & Labrador Economic Forecasts [Annual average % change, unless otherwise noted]			
	2018	2019	2020
Real GDP	-2.7	1.5	1.1
Nominal GDP	0.1	4.0	3.6
Employment	0.4	1.5	-0.7
Unemployment Rate (%)	13.8	12.1	12.5
Housing Starts (000's)	1.5	0.7	1.0
Existing Home Prices	-1.4	-2.8	-1.1
Home Sales	-5.1	8.7	3.7

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

Provincial Economic Forecasts

Provincial Economic Forecasts	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2018	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**
National	**1.9**	**1.3**	**1.7**	**3.6**	**3.3**	**4.0**	**1.3**	**2.0**	**0.7**	**5.8**	**5.7**	**5.9**	**214**	**198**	**196**	**-3.5**	**-2.0**	**3.2**
Newfoundland & Labrador	-2.7	1.5	1.1	0.1	4.0	3.6	0.4	1.5	-0.7	13.8	12.1	12.5	1.5	0.7	1.0	-1.4	-2.8	-1.1
Prince Edward Island	2.5	2.0	1.3	4.3	3.9	3.3	3.0	0.6	0.1	9.4	9.6	9.8	1.0	0.7	1.1	4.5	9.4	4.6
Nova Scotia	1.2	1.1	1.2	2.6	3.0	3.1	1.5	2.2	-0.1	7.6	6.9	7.4	4.9	4.0	4.0	3.2	6.7	3.9
New Brunswick	0.1	0.5	0.9	1.0	2.1	2.9	0.3	0.8	-0.1	8.0	7.9	8.1	2.3	1.8	1.9	5.9	3.9	5.6
Québec	2.1	1.7	1.7	4.2	4.0	3.9	0.9	1.5	0.6	5.4	5.2	5.5	46.9	46.9	43.8	5.3	4.8	3.5
Ontario	2.2	1.3	1.4	3.4	3.6	3.6	1.6	2.6	0.8	5.6	5.7	5.7	79.4	69.4	73.9	-1.7	4.7	4.6
Manitoba	1.4	1.3	1.7	3.2	3.0	4.1	0.6	1.4	0.7	6.0	5.4	5.4	7.4	6.6	5.5	1.2	1.2	3.9
Saskatchewan	1.5	0.8	1.2	3.2	2.1	3.8	0.5	1.4	0.7	6.1	5.5	5.8	3.6	2.3	4.1	-2.3	-2.0	-0.2
Alberta	2.0	0.5	2.1	3.5	1.9	4.8	1.9	0.6	1.2	6.6	6.8	6.7	26.3	23.4	25.7	-2.4	-3.3	0.0
British Columbia	2.4	1.5	2.0	4.7	3.5	4.4	1.1	3.1	0.8	4.7	4.6	4.7	40.9	42.1	34.9	0.9	-7.9	-0.6

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at June 2019.