Provincial Economic Forecast

Alberta and Saskatchewan to Top Growth Leaderboard This Year

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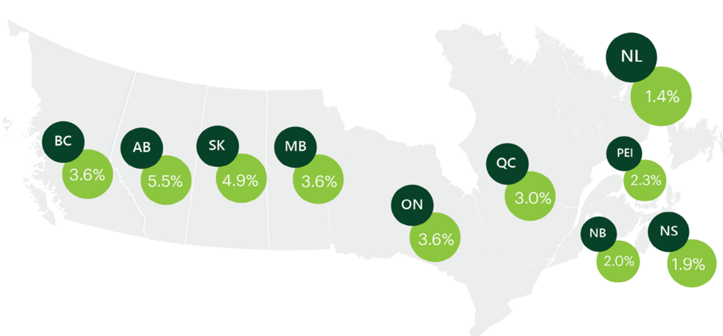
- We've downgraded our 2022 growth forecasts in most provinces by 0.1-0.9 percentage points compared to our March forecast, as a steeper climb in borrowing costs and persistently elevated inflation crimp household and business spending across the country. Real GDP is now projected to run from 1.4% in Newfoundland and Labrador to 5.5% in Alberta. The good news is that most regional economies appear to have entered the summer in solid form, leaving a cushion to absorb these shocks.
- As in recent months, households in the Atlantic region are expected to face the most intense inflation pressures in the near term, given the relatively high share of household budgets taken up by food and energy products. However, household debt burdens in the Atlantic (alongside Quebec and Saskatchewan) tend to be comparatively small. The opposite is true in Ontario and B.C., likely increasing the sensitivity of households to higher interest rates. Meanwhile, the Prairie and B.C. economies should continue to benefit from higher prices for agricultural and energy commodities, providing a strong counterbalance to the financial headwinds on households in those regions.
- Averaging around $110 per barrel in the second quarter, crude oil prices have moved in line with our March forecast. We project an even higher level for prices in the third quarter, before they gradually fall back towards $100 per barrel by year end on the back of a reduced fear premium, some demand destruction and modestly higher global supply.
- In the recently concluded provincial budget season, several governments committed to rolling out relief to households to help them cope with inflation. Notably, government spending should provide a tailwind to expansions. In aggregate, the Provinces are projected to remain in deficit over the medium term, while little headway will be made on reducing debt-to-GDP ratios.
- Housing markets are retrenching under the weight of higher interest rates. Home sales are down across nearly all provinces since February, while average home prices have dropped in Alberta, B.C. and especially Ontario. We believe that there is further downside left for markets as rates climb, and are forecasting continued declines in home sales and prices through the remainder of the year.

Provincial Real GDP Growth Forecast (2022)



Source: TD Economics. Forecast as of June 2022.

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

British Columbia

Statcan's recent release of industry-based GDP showed that B.C.'s economy expanded at over 6% last year – the second fastest growth in Canada. The economy has seen strong momentum carry over through the first half of 2022, with employment up a solid 2.7% relative to its 2021 average in the January-May period. Meanwhile, the unemployment rate is near historic lows while the job vacancy rate (a proxy for labour demand) is the highest in the country. Yet, unintuitively, wage growth has lagged the national rate by some measures.

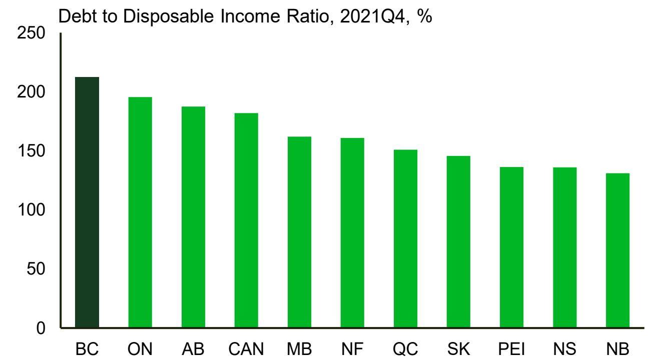
While we do expect wages to pick up moving forward, households in the province are carrying the largest debt burden in the country, enhancing their exposure to higher interest rates (Chart 1). Fortunately, inflation has not risen quite to the same extent as in other jurisdictions in Canada, shielded by the fact that food and energy prices account for a small share of B.C.'s consumption basket, and a massive cut in vehicle insurance premiums last year (Chart 2).

Natural gas production in B.C. has climbed by 14% y/y in the first quarter. Since then, prices have shot even higher, providing a powerful incentive to push up production. In addition, construction activity is being boosted by ongoing work on the LNG plant in Kitimat while also receiving a tailwind from rebuilding efforts after last year's floods. There also continues to be solid demand for high-skill services, with employment in B.C.'s vibrant professional, scientific and technical industries jumping 7% from the end of last year.

Even with these positives, we forecast a significant cooling in B.C.'s economic growth both this year and in 2023. Perhaps most importantly given its outsized share of the economy, housing market activity is likely to continue trending lower through 2022 as higher interest rates worsen an already tough affordability backdrop. We've already seen signs of this, with sales down 29% from their February peak, average home prices have dropped 8% over the same period, and homebuilding is rolling over.

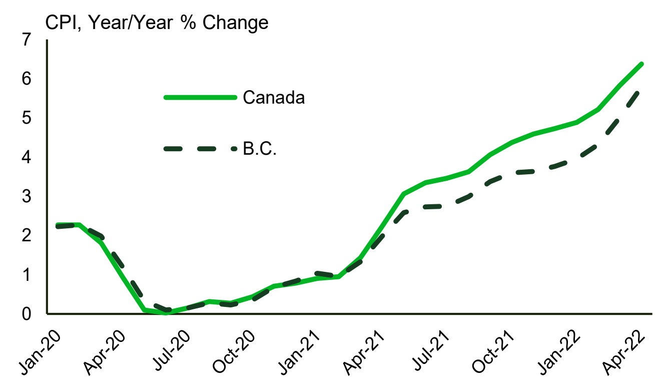
A slower pace of homebuilding in the U.S. should weigh on shipments of lumber products from the province. Softening growth in China (B.C.'s second largest export market) also bodes poorly for international shipments. Meanwhile, the manufacturing industry's outsized reliance on Chinese imports has likely exacerbated input cost pressures, given production disruptions in the Middle Kingdom due to lockdowns. Fortunately, those have now eased.

Chart 1: B.C.'s Households Carrying the Largest Debt Burden in the Country, Increasing Their Vulnerability to Rising Borrowing Costs



Source: Statistics Canada ,TD Economics.

Chart 2: Cut in Vehicle Insurance Premiums, Low Share of Energy and Food in CPI Basket Restraining Inflation in B.C.



Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	6.2	3.6	1.7
Nominal GDP	14.6	11.9	5.3
Employment	6.6	3.3	0.6
Unemployment Rate (%)	6.5	4.8	5.3
Housing Starts (000's)	47.7	40.8	33.7
Existing Home Prices	19.8	3.2	-8.1
Home Sales	32.8	-30.9	-13.5

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

Alberta

Alberta is likely to lead the way in terms of economic growth this year, as the steep climb in crude oil, natural gas and agricultural prices lift incomes in the province. In this vein, we've lifted near-term forecasts for both oil and natural gas in the June outlook due largely to the impact of growing sanctions on Russia. Although remaining higher for longer, prices for both commodities are still projected to pull back towards the end of 2022 and into 2023 on the back of slowing economic growth across advanced economies, some pickup in supply as well as a narrowing in the "fear premium" currently imbedded in markets.

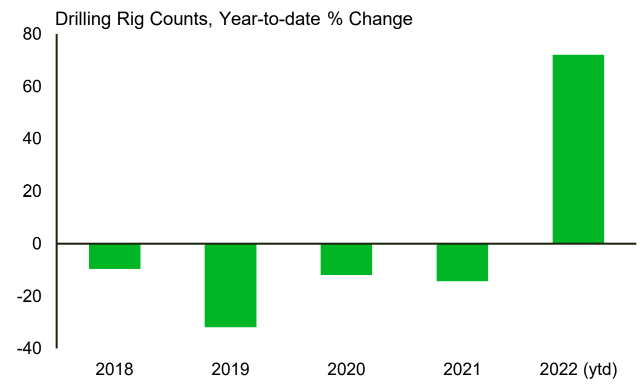
Job growth in Alberta has been solid so far this year, bolstered by gains in the private sector. In fact, private sector hiring has been the strongest of any province year-to-date, supported by industries tied to re-openings (e.g., accommodation and food services, retail trade), the professional, scientific, and technical services sector, and mining, oil, and gas.

We're also anticipating a decent increase in oil and gas production this year, as producers move to benefit from the favourable price backdrop. So far, oil production growth has been modest. However, a sharp rise in rig counts in the second quarter may portend higher output moving forward (Chart 1). All told, we think oil production could expand by 200k barrels/day this year. Meanwhile, natural gas production has been strong so far this year and we expect further gains moving forward.

Notwithstanding these positives, there are some stiff headwinds that the province is facing. Perhaps most notably, households in the province are carrying a relatively large share of debt and will be strained by the steep rise in borrowing costs (Chart 2). Moreover, wage growth has been muted, as a consequence of past economic weakness.

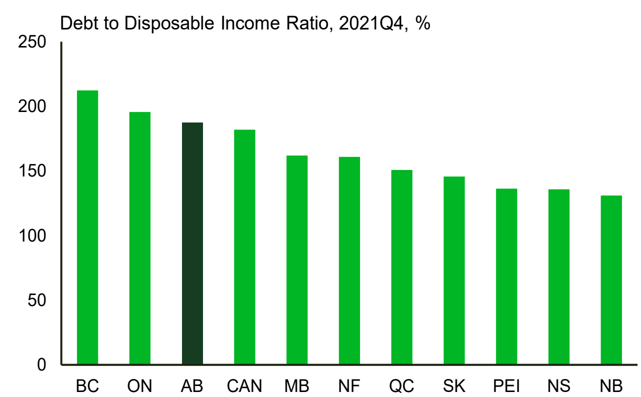
It's been a long, challenging road back to surplus for Alberta and the modest spending plan laid out in their latest provincial budget indicates that fiscal prudence remains a key goal. As it stands, policymakers envision their $3.2 billion FY 2021/22 deficit morphing into a mild surplus this fiscal year. However, there's a very good chance that Alberta's fiscal position will record an even larger positive swing from an upside revenue surprise this year, given the conservative assumptions on oil prices baked into the government's projections.

Chart 1: Sharp Rise in Rig Counts Suggests Increased Oil Production Is in the Cards in Alberta



Source: Baker Hughes, TD Economics.

Chart 2: Alberta's Large Household Debt Burden Makes Them Vulnerable to Rising Interest Rates



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	5.1	5.5	2.8
Nominal GDP	21.8	24.0	4.9
Employment	5.2	5.1	1.3
Unemployment Rate (%)	8.6	5.8	5.8
Housing Starts (000's)	32.1	36.1	27.8
Existing Home Prices	9.1	7.6	-1.2
Home Sales	53.5	0.2	-17.8

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

Saskatchewan

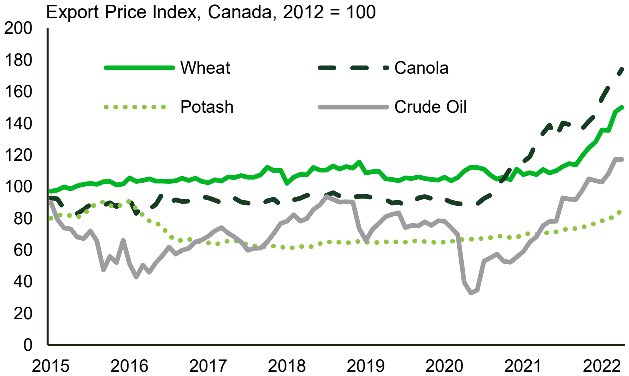
In recent years, Saskatchewan's economic backdrop has been exceedingly soft, with the recently released industry-based GDP data revealing a 3-year string of economic contractions through 2021. Fortunately for the province, 2022 is shaping up to a strong bounce-back year, as incomes are being supported by higher prices for several key commodities including wheat, canola, potash, and crude oil (Chart 1). The province also seems to be benefitting from a global shift towards Canadian produced potash after the Russian invasion of Ukraine, as export volumes for this commodity soared in March.

Agricultural production plunged 43% in 2021 to its lowest level in nearly 20 years, reflecting a severe drought. We are expecting a return to growth this year on the assumption of more typical weather conditions. And, further normalization of agricultural output should add to growth in 2023 as well. Note that agricultural output increased in the first quarter at the national level. However, in Saskatchewan, the amount of area seeded for crops is expected to dip slightly from last year. Elsewhere, production of another key commodity – crude oil – was up 2% year-on-year in the first quarter. Rig counts have also risen modestly on a year-on-year basis in Q2, suggesting continued production gains are in the cards.

The province's budget confirmed the signal sent earlier by the capital intentions survey that government infrastructure investment is expected to increase solidly this year. However, program spending is slated to drop significantly in FY 2022/23 after a huge gain the prior year. Saskatchewan's deficit is expected to fall to 2 ppts to 0.5% of GDP this year. However, even more of an improvement could take place, given how far commodity prices are expected to outstrip levels the government baked into its projections.

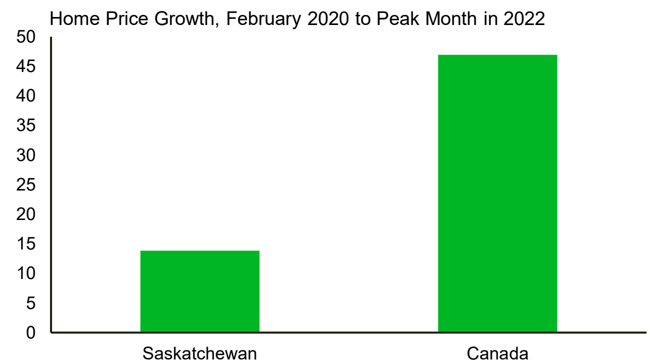
There are a few key elements that could soften the toll on household budgets from inflation and higher interest rates. For one, inflation is running slower than the nation overall, dampening the hit to real wages on a relative basis. In addition, housing affordability is still quite decent by historical standards (Chart 2) despite a sizeable runup in home prices during the pandemic, reflecting several prior years of falling prices. This should help to restrain the rise in debt servicing costs in the quarters ahead and leaves less potential downside for home prices.

Chart 1: Prices Elevated for Several Key Saskatchewan Export Commodities



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

Chart 2: Subdued Home Price Growth Leaves Saskatchewan's Market Better Positioned To Absorb Rate Hikes



Source: CREA, TD Economics.

Saskatchewan Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	-0.3	4.9	2.4
Nominal GDP	12.6	23.9	4.1
Employment	2.6	3.9	0.8
Unemployment Rate (%)	6.5	4.9	4.9
Housing Starts (000's)	4.3	4.8	4.0
Existing Home Prices	7.2	3.1	1.8
Home Sales	24.1	-10.5	-7.5

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

Manitoba

Our growth forecast for Manitoba this year relies on a better year for agricultural production after the collapse of 21% endured in 2021. While we are sticking with this view, early indications of activity have been somewhat mixed, as agricultural employment has continued to soften. On the stronger side, agricultural output at the national level strengthened in the first quarter. Of course, farm receipts should be buffeted this year by elevated prices for commodities such as wheat, canola, and soybeans (Chart 1).

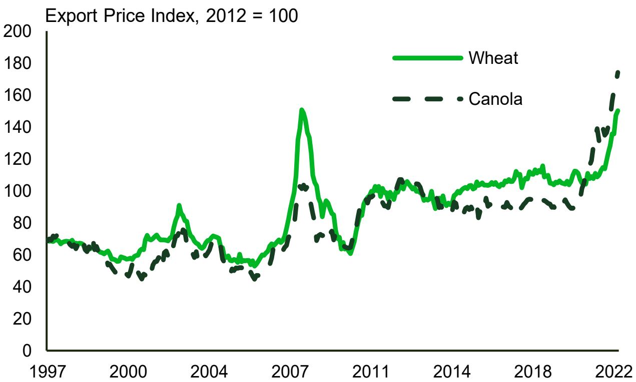
The Russian invasion of Ukraine has sparked worries of deepening shortages of certain food items, like wheat. While the resulting higher prices make planting these crops attractive, farmers must also contend with higher costs for inputs such as fertilizer and energy. Note that recently released data on seeding intentions revealed that Manitoban farmers plan to seed slightly more area this year than in 2021.

We remain optimistic that other goods-producing industries can add to growth this year. We've had encouraging signals so far, as year-to-date manufacturing sales and inflation-adjusted residential construction investment are up 13% and 9%, from their 2021 average, respectively (Chart 2). What's more, the provincial budget revealed the government's intention to ramp up capital investment to $3.2 billion this fiscal year from $2.0 billion the year prior, and this type of spending generally tends to have among the highest multipliers. Despite this sizeable commitment to infrastructure spending, the provincial government is planning to scale back its net debt-to-GDP ratio over the medium term (from 36.4% in 2021/22 to 35.1% by 2024/25) by way of containing growth in operating outlays.

We expect economic growth to slow markedly in the second half and 2023, reflecting eroded household purchasing power from elevated inflation and higher interest rates. Note that wage growth in Manitoba has disappointed, as economic growth has generally underperformed since the pandemic struck and employment rates have remained below pre-pandemic levels. However, on the flip side, home prices didn't climb to nearly the same extent as in other parts of the country, which should ease some upward pressure on household debt servicing charges as interest rates ratchet higher.

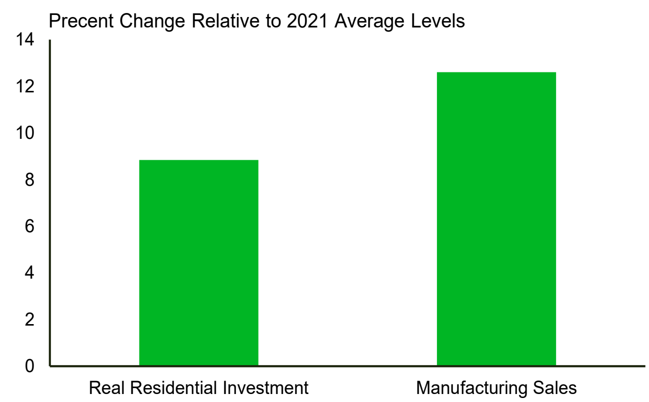
Weaker economic growth in Canada and abroad is also likely to weigh on Manitoba's rate of expansion moving forward. The former is particularly important given Manitoba's outsized reliance on interprovincial trade.

Chart 1: Skyrocketing Wheat and Canola Prices Boosting Incomes in Manitoba



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

Chart 2: Large Goods-producing Industries Supporting Growth so Far in 2022



Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	1.2	3.6	1.9
Nominal GDP	7.8	11.3	4.8
Employment	3.5	2.6	0.5
Unemployment Rate (%)	6.4	4.8	5.1
Housing Starts (000's)	8.0	7.4	5.5
Existing Home Prices	10.1	13.5	1.1
Home Sales	17.2	-20.7	-1.7

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

Ontario

The Omicron variant appears to have exerted a more pronounced drag on Ontario's economy relative to the rest of the country to start 2022. However, the thrust to second quarter growth from re-openings this winter is seemingly stronger, with the economy kicking into high gear. Indeed, job growth has outpaced the nation so far in the second quarter, driven by re-openings, professional services, and the public sector.

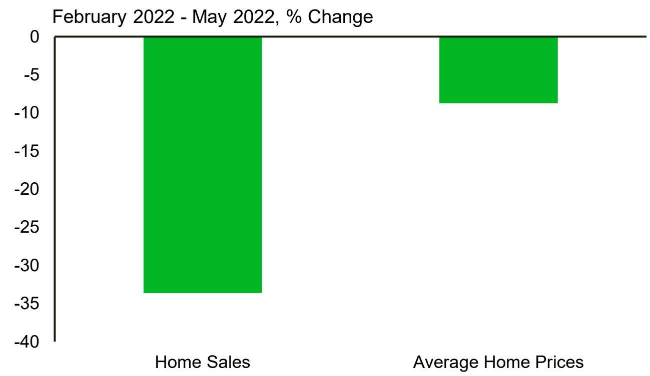
The second half of the year is likely to be a different story, as spending and housing activity are hit by higher interest rates and declining asset values. Indeed, Ontario is the poster child for Canada's ongoing housing market correction. In Toronto, sales are down 33% from their February peak through May, while average prices are 9% lower (Chart 1). We think that there is even more downside looming for key Ontario markets during the remainder of this year into next, particularly in the GTA suburbs and exurbs where the price run-up has been most notable since the start of the pandemic.

This cooling in home sales and prices will impact other parts of the economy, including Ontario's large finance, insurance and real estate and professional, scientific, and technical services industries. In addition, the pace of housing construction will likely slow, relative to our prior expectations, albeit with a lag.

The outlook for Ontario's large manufacturing sector has also become more downbeat, thanks to downgraded growth expectations in the U.S. and elsewhere in the world. Manufacturers are also having to deal with sharply rising input costs while in the automotive sector, production is likely to grind only slowly higher as chip shortages continue to weigh. However, 2023 should see a rebound in automotive output, even if production levels lag their pre-pandemic totals.

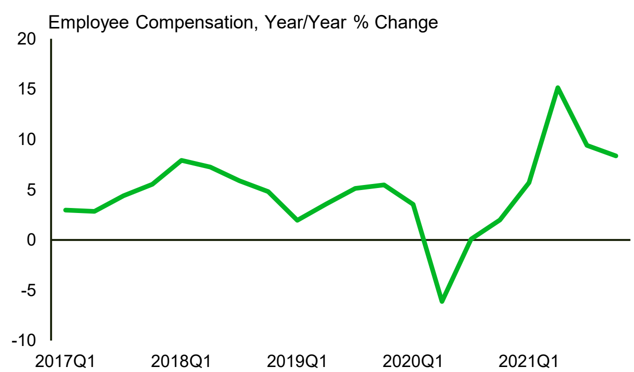
Several supportive factors should help offset these headwinds and keep Ontario's economy growing, if even at a sub-trend rate. First, population growth should continue to improve, as immigration is robust and the flood of people leaving Ontario for other provinces eases due to remote work being curbed. In addition, households still have significant savings built up during the pandemic from which to draw, job markets are currently solid, labour demand is firm and employee compensation is likely to pick up further to help ease the burden of elevated inflation (Chart 2).

Chart 1: Toronto's Housing Markets Retrenching in a Big Way



Source: CREA, TD Economics.

Chart 2: Solid Growth in Wages and Salaries Providing Some Offset to Inflation and Higher Rates



Source: Ontario Ministry of Finance, TD Economics. Last observation: 2021Q4.

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	4.3	3.6	1.6
Nominal GDP	11.7	10.6	5.3
Employment	4.9	4.9	0.6
Unemployment Rate (%)	8.0	5.6	5.9
Housing Starts (000's)	101.2	85.5	82.4
Existing Home Prices	24.9	3.8	-9.4
Home Sales	18.6	-31.7	-13.3

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

Québec

Despite some early-year impacts on activity from the Omicron variant, most of Quebec's industries enjoyed a strong start to 2022. In fact, Quebec's economy likely expanded at a faster pace than Canada's 3.1% turnout in the January-March period (Chart 1).

While re-openings have set the stage for solid second quarter growth, we expect Quebec to endure a significant slowdown beginning in the second half, as rising interest rates and elevated inflation weigh on household and business spending.

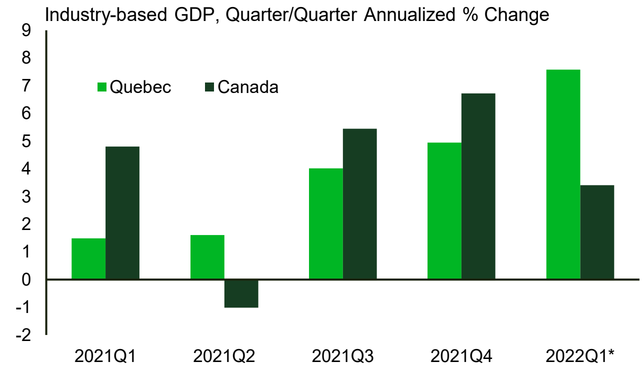
Still, there are several factors that should soften the impact of these headwinds on households, motivating a lesser downgrade to Quebec's growth prospects compared to the rest of Canada. First, households in Quebec have a particularly large stockpile of savings, evidenced by a savings rate that's well above that of Canada (Chart 2). In addition, households are carrying less debt (as a share of income) compared to the rest of Canada. Homeownership rates in Quebec are also relatively low, meaning that renters (who have experienced much slower inflation in rents compared to what owners have faced from rising home prices), make up a large share of the populace. Finally, in its latest budget, the government pledged a one-time payment of $500 dollars to adults with incomes of 100k or less to help with the cost of living.

In addition to these factors, a relatively rapid economic recovery combined with years of slow population growth and an aging population has left Quebec's job market historically tight. Indeed, it's unemployment rate is trending at a historical low while job vacancies are amongst the highest in Canada. These conditions have pushed wage growth well above the long-term average.

Generationally tight job markets are a double-edged sword from a growth perspective. On the one hand, they are sparking robust wage growth. On the other, worker shortages are likely restraining growth more than other parts of Canada. In response, the government hopes to admit over 71k immigrants this year, which is well above the typical tally, as the province tries to make up for the shortfall experienced during the pandemic.

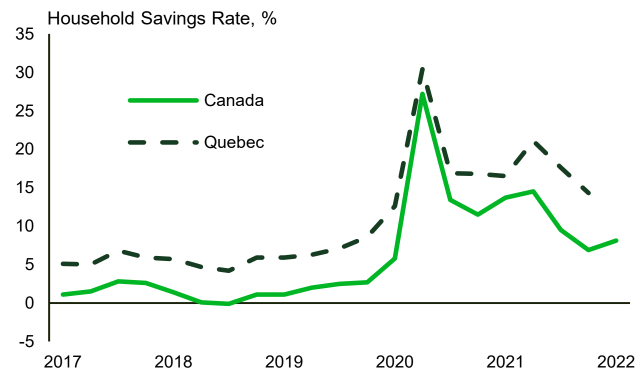
Manufacturers will likely face some tougher times ahead as global growth slows and input cost inflation remains elevated. The industry relies on imports from China to a notable degree, so the end of Chinese lockdowns bodes well.

Chart 1: Industry-based GDP Points to Strong First Quarter Performance in Quebec



*For 2022Q1, 0.6% m/m growth in Quebec's monthly GDP is assumed.
Source: Statistics Canada, Institut de la statistique du Québec, TD Economics.

Chart 2: Households in Quebec Have a Considerable Amount of Savings to Draw From



Source: Institut de la statistique du Québec, Statistics Canada, TD Economics.

Québec Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2021	2022	2023
Real GDP	5.6	3.0	1.3
Nominal GDP	12.3	9.5	5.2
Employment	4.2	2.6	0.3
Unemployment Rate (%)	6.1	4.4	5.2
Housing Starts (000's)	71.2	64.6	48.7
Existing Home Prices	20.0	8.3	-5.3
Home Sales	-2.4	-16.0	-4.7

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

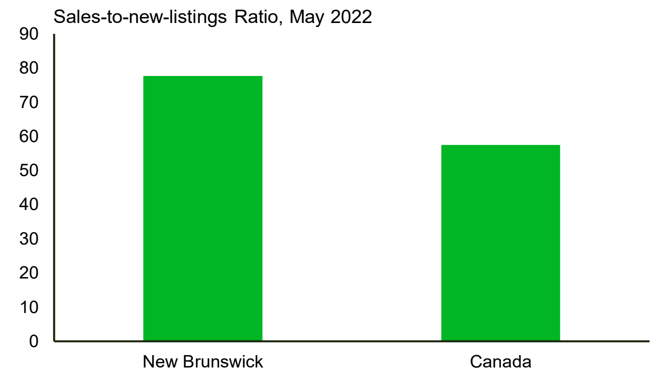
New Brunswick

Housing markets in New Brunswick have continued to run hot, even as interest rates have climbed. For example, average home prices were up over 25% year-on-year in May, compared to the more pedestrian 3.9% gain observed across Canada. Zooming out further, home prices in New Brunswick have appreciated by about 60% during the pandemic. What's notable is that even with this appreciation, prices are still inexpensive compared to nearly all other provinces. Less-expensive housing has likely been a draw for New Brunswick, with the ability to work remotely unlocking significant interprovincial migration into the province. New Brunswick's housing markets are also exceedingly tight (Chart 1), which should underpin positive home price growth in the near-term. That said, rising interest rates should ultimately cool down growth in home sales and prices. In addition, diminished opportunities for remote work should also weigh on demand while also easing population growth, which is currently running at a multi-decade high.

Like most other Atlantic Provinces, New Brunswick's economy is likely operating in excess demand, with output well above pre-pandemic levels, the unemployment rate plumbing historic lows, and wage growth running above trend. Households will likely need this cushion, as inflation in the province is currently outpacing Canada (Chart 2) and is slated to move even higher in the near-term on the back of higher food and energy prices. Compared to other provinces, the consumption basket of New Brunswick 's households is more skewed than average towards food and energy products. Note that in its latest budget, the provincial government pledged income and property tax relief in a bid to bolster household incomes in the face of intense inflation pressures. The government is also projecting solid program spending growth this year, although steep inflation will dampen the impact on the real economy. This is significant as the public sector accounts for nearly 30% of GDP.

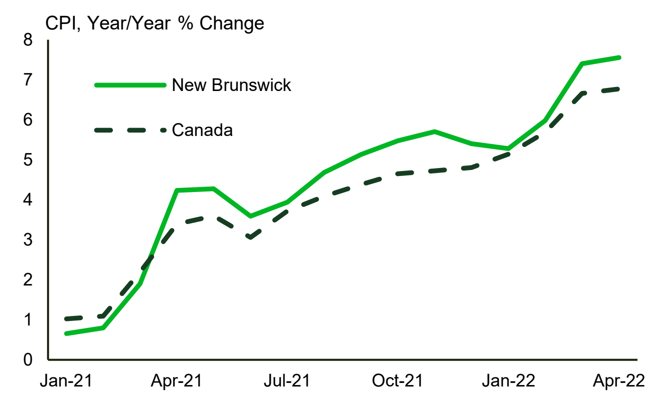
The outlook for New Brunswick's trade prospects has dimmed compared to our prior forecast. We are anticipating slower growth in major domestic trading partners like Ontario, Quebec, and Nova Scotia through the projection horizon. In addition, the forecast for U.S. economic growth (the destination of over 90% of New Brunswick's international exports) has been downgraded. In particular, we see U.S. housing construction easing through the remainder of the year, which should weigh on the province's important lumber industry.

Chart 1: Housing Markets Are Exceedingly Tight in New Brunswick



Source: CREA, TD Economics.

Chart 2: Outsized Weighting in Food and Energy Products Pushing Up Inflation in New Brunswick



Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	5.3	2.0	0.7
Nominal GDP	13.6	7.3	4.7
Employment	2.6	1.8	0.4
Unemployment Rate (%)	9.0	7.5	7.8
Housing Starts (000's)	4.0	4.3	2.2
Existing Home Prices	26.7	19.8	-7.1
Home Sales	22.4	-19.5	-6.5

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

Nova Scotia

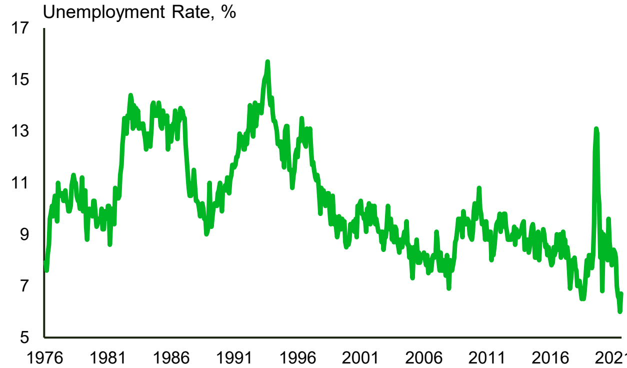
Last year, Nova Scotia's economy enjoyed a steep climb out of the economic hole caused by the pandemic according to industry-based GDP data released last month. In 2021, real GDP expanded by 5.8%, leaving it some 3% above its pre-pandemic level. This robust performance has extended into the first half of the year, with job growth solid, job vacancies high (indicating that labour demand remains strong) and Nova Scotia's unemployment rate sitting well below its long-run average (Chart 1). While Nova Scotia has not sidestepped a downgrade to its forecast, these trends leave us comfortable with our call for another year of respectable growth in the province.

Most measures also point to an economy operating in excess demand, and the province will need this sturdy starting point to cushion against the negative impacts on spending of accelerating energy and (especially) food price. With inflation running faster than in the rest of the country and tremendous pressure being put on household budgets, consumption should slow meaningfully in the second half of 2022. Note that real retail spending contracted year-on-year through April.

The province has boosted infrastructure outlays to a significant degree in recent years and 2022 looks to be no different. Indeed, Nova Scotia's most recent capital plan forecasts a 25% gain in infrastructure spending this fiscal year, consistent with the earlier-released survey of public and private investment intentions. The decision to ramp up outlays is related to the significant population growth Nova Scotia has experienced, which the government expects will largely continue over the medium term as immigration rises. This expectation seems on track so far, as population growth is again accelerating after gearing down during the pandemic. In fact, annual growth in the 15+ population was 2.2% in May, marking the fastest pace on record (Chart 2).

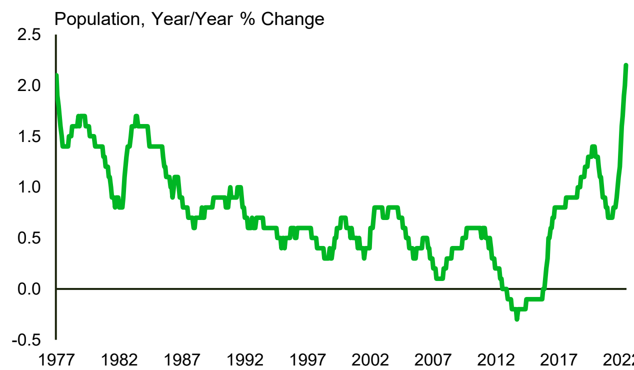
Rapid population growth will act as a solid counterbalance to the near-term headwinds on spending and help to underpin housing market activity. Unlike many other parts of the country, home prices have been climbing in Nova Scotia since February and are up 70% over the pandemic (compared to a 30% gain across Canada). However, higher interest rates and a tightening up of remote work (which should weigh on interprovincial migration into Nova Scotia) should lead to a softening in housing activity towards the latter part of the year and into 2023.

Chart 1: Nova Scotia's Unemployment Rate Hovering near a Record Low



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

Chart 2: Nova Scotia's Population Growing at a Record Pace



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

Nova Scotia Economic Forecasts

[Annual average % change, unless otherwise noted]

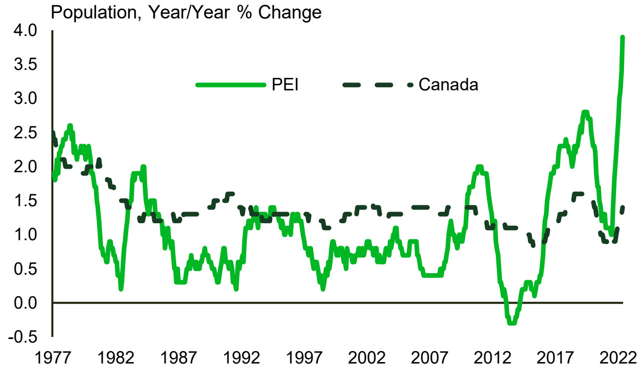
Economic Indicators	2021	2022	2023
Real GDP	5.8	1.9	1.0
Nominal GDP	12.9	9.1	4.6
Employment	5.4	3.3	0.2
Unemployment Rate (%)	8.4	6.7	7.5
Housing Starts (000's)	6.0	6.4	5.2
Existing Home Prices	24.1	18.2	-7.1
Home Sales	14.1	-19.2	-13.0

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

Prince Edward Island

At 8.9% y/y in April, PEI's inflation rate is the fastest in the country. This could be chalked up to a multitude of forces. First, PEI's industry-based GDP growth rate was 6.6% last year after a mere 1.8% drop in 2020, pointing to a robust economic backdrop heading into 2022. What's more, employment is already 5% above its 2021 level through May, driving the unemployment rate well below its long-term trend and wage growth well above. In addition, food and energy products (where inflation has been most rapid) account for an outsized share of the CPI basket, pushing the overall index higher. Finally, the fastest population growth in the country has sparked double digit gains within the rent component of the CPI (Chart 1).

Chart 1: P.E.I.'s Population Growth the Fastest on Record and Much Stronger than the Rest of Canada

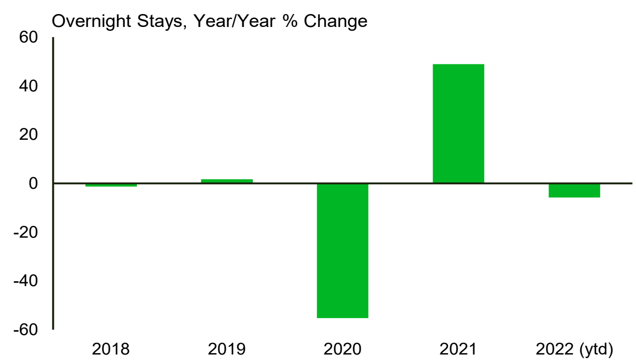


Source: Statistics Canada, TD Economics. Last observation: May 2022.

We expect household spending to ease in response to these intense inflation pressures moving forward, thereby pressuring economic growth downwards. However, robust population growth will likely provide some degree of offset.

Pressures on household budgets, not only in Canada, but in the U.S. and many parts of the world, risk disrupting the recovery in PEI's large tourism sector. We've already seen some pullback on this front early in the year as the country dealt with its 5th COVID wave (Chart 2).

Chart 2: Early-year Tourism Spending Pulled Back in P.E.I.



Source: Statistics Canada, TD Economics.

Note that the provincial government is projecting their program spending to advance at a mere 2% clip this fiscal year (in nominal terms). This suggests that, after the rapid gain the year prior, government spending is set to slow in the second half of this year and into 2023. This is important as the public sector accounts for about 30% of output on the Island.

On the brighter side, PEI resumed shipping potatoes to the U.S. in late March, after concerns about potato wart fungus prompted a ban in November. In addition, the provincial government's robust capital spending plan should add to growth this year, as policymakers continue to invest in infrastructure in response to the rapid population gains made in recent years.

Notably, shipments of fertilizer products from Russia make up 30% of PEI's international imports – by far the largest share in the country. Canadian sanctions on Russia have not yet threatened trade of these products.

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	6.6	2.3	1.4
Nominal GDP	14.0	9.7	5.2
Employment	3.7	6.4	0.9
Unemployment Rate (%)	9.3	8.4	8.5
Housing Starts (000's)	1.2	1.2	1.1
Existing Home Prices	21.8	11.1	-5.8
Home Sales	15.0	-10.4	-18.3

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

Newfoundland & Labrador

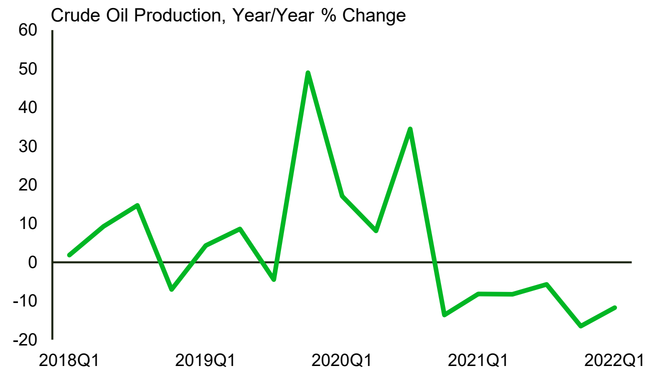
The higher oil price backdrop is providing a boost to incomes and provincial government revenues in Newfoundland and Labrador. However, production has struggled to rise, even with the incentive provided from elevated prices. This is a major factor underpinning our modest 2022 growth forecast for the province. In the first quarter, oil production was down nearly 12% year-on-year (Chart 1), as the Terra Nova offshore oilfield remains offline, while Hibernia and White Rose are both facing depleting reserves. More positively, the Come By Chance refinery is being converted into a biofuel operation, with production currently slated to begin at the end of the year. In addition, production at Terra Nova is expected to come back online later in the year, which should give oil production a jolt in 2023.

This year's outlook for other goods-producing industries is subdued. Note that, exports of metal ores and non-metallic minerals were down 20% year-to-date through April, weighed down by lower iron ore prices compared to their highly elevated 2021 levels. In addition, construction spending should be bogged down by the conclusion of the large-scale Muskrat Falls project. However, the outlook for non-residential activity brightens again next year, as work on the $3.2 billion West White Rose offshore oil project ramps up after being suspended due to the pandemic.

In the province's spring budget, Newfoundland and Labrador's FY 2021/22 debt-to-GDP ratio was estimated at 42.9% - well below what was envisioned at the time of last year's budget, due to booming nominal GDP. The province expects to make only modest headway on reducing its deficit in FY 2022/23. However, there is room for a positive surprise on revenues given the conservative projection for oil prices baked into the Province's forecasts. The government is also delivering temporary relief to households through measures like eliminating the retail sales tax on home insurance for a year. Households could need this breathing room, as they spend more of their budgets on rapidly inflating food and energy products (according to the CPI basket) of any province in Canada (Chart 2).

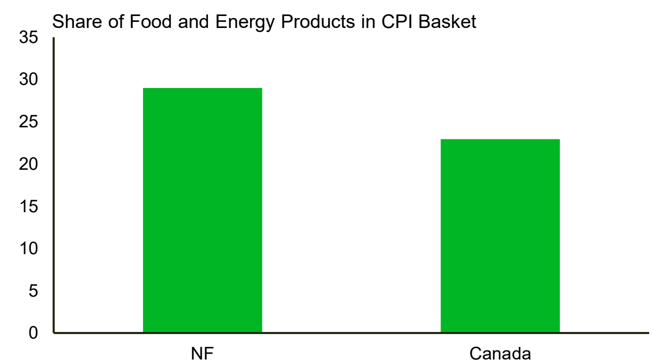
Housing market activity is showing resilience in the face of higher rates, as home prices have yet to drop, even as they have careened lower in many other parts of the country. A good affordability backdrop should help housing markets weather the impact of rising borrowing costs.

Chart 1: Crude Oil Production Lagging in Newfoundland and Labrador, Hampering 2022 GDP Growth



Source: Statistics Canada, TD Economics.

Chart 2: Newfoundland and Labrador's Households Especially Vulnerable to Rising Food and Energy Prices



Source: Statistics Canada, TD Economics.

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	1.2	1.4	1.7
Nominal GDP	16.3	15.5	3.5
Employment	3.0	3.6	0.0
Unemployment Rate (%)	12.9	11.4	11.8
Housing Starts (000's)	1.3	1.8	1.1
Existing Home Prices	10.7	6.8	2.3
Home Sales	45.5	0.5	-11.1

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

Provincial Economic Forecasts

Provincial Economic Forecasts																		
Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F
National	**4.5**	**3.7**	**1.7**	**13.0**	**12.7**	**5.0**	**4.8**	**4.0**	**0.6**	**7.4**	**5.3**	**5.8**	**276.8**	**252.9**	**211.7**	**22.6**	**0.4**	**-8.0**
Newfoundland & Labrador	1.2	1.4	1.7	16.3	15.5	3.5	3.0	3.6	0.0	12.9	11.4	11.8	1.3	1.8	1.1	10.7	6.8	2.3
Prince Edward Island	6.6	2.3	1.4	14.0	9.7	5.2	3.7	6.4	0.9	9.3	8.4	8.5	1.2	1.2	1.1	21.8	11.1	-5.8
Nova Scotia	5.8	1.9	1.0	12.9	9.1	4.6	5.4	3.3	0.2	8.4	6.7	7.5	6.0	6.4	5.2	24.1	18.2	-7.1
New Brunswick	5.3	2.0	0.7	13.6	7.3	4.7	2.6	1.8	0.4	9.0	7.5	7.8	4.0	4.3	2.2	26.7	19.8	-7.1
Québec	5.6	3.0	1.3	12.3	9.5	5.2	4.2	2.6	0.3	6.1	4.4	5.2	71.2	64.6	48.7	20.0	8.3	-5.3
Ontario	4.3	3.6	1.6	11.7	10.6	5.3	4.9	4.9	0.6	8.0	5.6	5.9	101.2	85.5	82.4	24.9	3.8	-9.4
Manitoba	1.2	3.6	1.9	7.8	11.3	4.8	3.5	2.6	0.5	6.4	4.8	5.1	8.0	7.4	5.5	10.1	13.5	1.1
Saskatchewan	-0.3	4.9	2.4	12.6	23.9	4.1	2.6	3.9	0.8	6.5	4.9	4.9	4.3	4.8	4.0	7.2	3.1	1.8
Alberta	5.1	5.5	2.8	21.8	24.0	4.9	5.2	5.1	1.3	8.6	5.8	5.8	32.1	36.1	27.8	9.1	7.6	-1.2
British Columbia	6.2	3.6	1.7	14.6	11.9	5.3	6.6	3.3	0.6	6.5	4.8	5.3	47.7	40.8	33.7	19.8	3.2	-8.1

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