TD Economics

Provincial Economic Forecast

Provincial Growth Looking Up As Interest Rates Come Down

June 19, 2024

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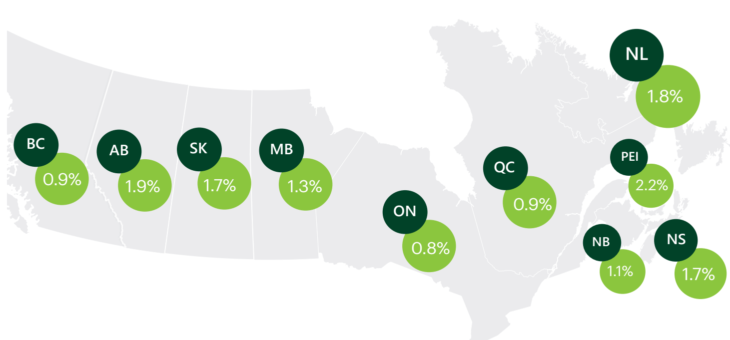
- Provincial economies are performing broadly as expected. Activity is likely to remain subpar across most of Canada, as regional economies continue to absorb the impact of elevated rates. We still see scope for growth outperformances in the Atlantic Region and Prairies, with somewhat weaker expansions likely in Ontario, B.C and Quebec.
- The Bank of Canada has begun to normalize its policy rate. However, the process will be gradual, with more significant progress in 2025. By late this year, the U.S. central bank should also be trimming its policy rate, downwardly pressuring Canadian yields and setting the stage for meaningful rate relief. All provinces will benefit, particularly those with the most highly indebted households such as Ontario, B.C., and Alberta.
- Falling borrowing costs will also deliver a shot in the arm to Canadian housing markets later in the year, changing the momentum from a spring market that has been subdued. Home sales growth should be particularly sturdy in B.C. and Ontario given pent-up demand, although affordability pressures will limit price gains. In contrast, markets in the Prairies should continue to outperform.
- Population growth across the nation continued to balloon over the first quarter of 2024, notably in Alberta, Ontario, and PEI. This may be the last surge before we see population growth rates slowly taper as a result of recently announced policies by the federal government. For now, decent employment gains have not been able to keep pace with the quickly growing labour force, leading to higher unemployment rates across most jurisdictions. We see jobless rates generally peaking by the end of this year before gently pulling back in 2025.
- Commodity provinces are still best positioned to navigate growth headwinds over the remainder of the year. We see oil prices averaging a fundamentally supported $80/bbl for 2024, slightly higher than forecasts laid out in provincial budgets. Most other commodity prices should also remain above their long-term averages, providing a solid floor for activity in commodity-oriented provinces.
- The Trans Mountain Pipeline completion will bolster oil production and export activity, providing an economic boost to Alberta and B.C. Meanwhile, provincial governments will play a part in the near-term expansion with high levels of spending cemented from recent budgets. In this vein, the public sector hiring has propped up overall job creation in the economy, especially in the Atlantic provinces and B.C.

Provincial Real GDP Growth Forecast (2024)



Source: TD Economics. Forecast as of June 2024.

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

British Columbia

Recently released industry GDP data for 2023 revealed that British Columbia's (B.C.) economy turned in better-than-expected growth last year. At 1.6%, GDP growth in B.C. only trailed P.E.I while landing in line with Ontario and Saskatchewan. B.C.'s upside surprise was services-sector driven with noteworthy expansions in public services, real estate, and professional services.

For the current year, we've nudged up B.C.'s GDP growth projection. Nonetheless, the economy is still facing pressure from a subdued household sector, a cloudy external backdrop and lackluster investment prospects. We see scope for a pickup in 2025, at which time the B.C. economy will likely regain its status as an above-average performer.

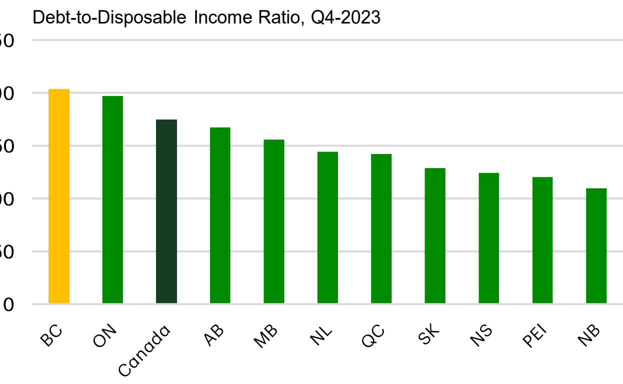
B.C. consumers have reigned in their spending so far this year, with retail sales contracting over the first quarter on a year-to-date (YTD) basis. Our timelier internal spending data also points to continued weakness in second-quarter spending. However, employment growth in the province has shown its mettle, up nearly 3.0% so far this year, which is helping to keep a floor under consumption. The Bank of Canada's start to their rate-cutting cycle will offer some relief to households but debt metrics still show B.C. residents as the most indebted across jurisdictions (Chart 1).

Elsewhere, the construction sector is bracing for a near-term slowdown as projects like LNG and Site C wind down, though commitments of almost $500 million from the Canada Infrastructure Bank to fund various upcoming projects is an offsetting bright spot. In contrast, residential investment has been picking up in recent months, but remains at low levels compared to peak homebuilding levels in 2022. Meanwhile, housing sales are expected to hold up reasonably well over the coming quarters as rate relief begins to bring buyers off the sidelines.

Weakness in energy and forestry exports, which account for nearly 60% of total outbound shipments, continue to weigh on the province's export performance (Chart 2). That said, a recent uptick in natural gas prices has begun to brighten the mood in the natural gas industry. In 2025, B.C.'s export sector will likely accelerate on the back of higher commodity prices on average, the start-up of LNG Canada, and rising U.S. homebuilding activity.

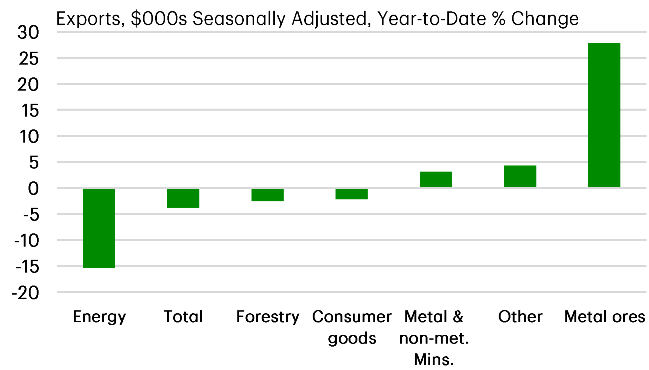
Despite a recent credit rating downgrade, the B.C. government still carries a relatively low debt burden. This has afforded room to push ahead with an ambitious spending program, providing a near-term lift to economic activity.

Chart 1: B.C. Households Still Carry the Heaviest Debt Burdens



Source: Statistics Canada, TD Economics.

Chart 2: Energy and Forestry Products Are the Biggest Drag on B.C. Exports



Source: BC Stats, TD Economics.

British Columbia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.6	0.9	1.9
Nominal GDP	3.4	3.6	4.5
Employment	1.6	2.5	0.6
Unemployment Rate (%)	5.2	5.7	6.2
Housing Starts (000's)	50.6	47.8	42.2
Existing Home Prices	-1.5	1.5	3.5
Home Sales	-9.2	-2.4	20.0

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

Alberta

Industry data for 2023 showed Alberta's economy fell short of consensus expectations for nation-leading GDP growth of over 2.0%. Instead, at 1.5%, the province ranked middle of the pack, owing largely to contractions in the construction and agricultural sectors, while the powerhouse energy sector advanced at a surprisingly tepid pace. An expected surge of activity in the oil patch this year will return Alberta to the upper end of provincial growth charts, counteracting early signs of a flagging household sector.

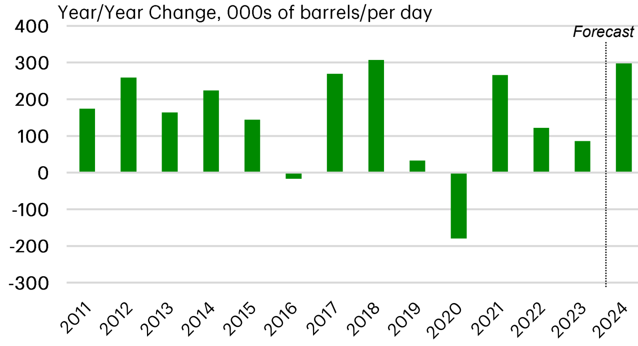
Oil output is on pace to record its strongest year since 2018 as the Trans Mountain Pipeline completion boosts overall capacity (Chart 1). Our forecast for a 300k/bpd increase in Alberta's oil supply growth is a major contributing factor to Canada's expected success as a global swing producer this year. The rise in pipeline egress has also boosted Canadian oil prices. Our forecast assumes that WTI prices and the WCS differential remains relatively favourable at US$80/bbl and -13/bbl on average in the current fiscal year, providing considerable upside to the government's resource revenue projections.

On the household side, some spending fatigue appears to be setting in. Retail sales have contracted over the first three months of the year relative to year-ago levels. On top of this, CPI-adjusted spending at food and drinking places has been decreasing. This is despite population growth that is still surging faster than any other province, which in turn is pulling per-capita spending more deeply negative.

As a result of the rapidly rising headcount, labour force growth has recently been tipping the scale at its most frenetic pace since 2006 (Chart 2). Even with Alberta's job market churning out impressive 3%+ job gains so far this year, it has not been sufficient to fully absorb the entrants into the labour market. As a result, the unemployment rate has jumped to 7.2%, the highest in nearly three years. Population growth at current rates are unsustainable and will likely slow over the coming quarters, helping to ease pressure on the unemployment rate.

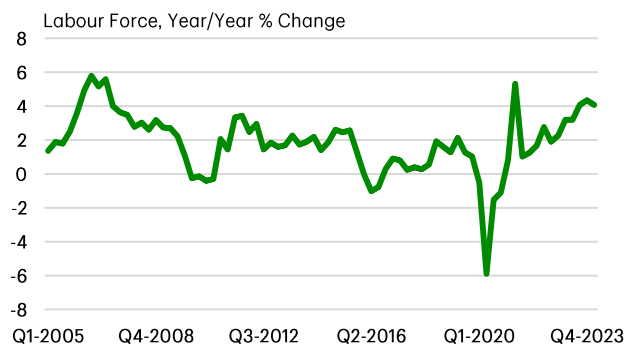
Alberta's housing market has remained fairly resilient so far this year. Despite the continued strength in the resale market, housing starts are expected to continue to drift lower over the next 2-3 quarters, before recovering modestly thereafter. Like other jurisdictions, Alberta's construction sector is currently suffering from acute worker shortages and other cost challenges, which will remain limiting factors on their ability to meet future demand.

Chart 1: Alberta's Oil Production Growth Set to Surge in 2024



Source: Alberta Energy Regulator, TD Economics.

Chart 2: Alberta's Population Growth is Causing a Labour Force Surge



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023	2024F	2025F
Real GDP	1.5	1.9	1.9
Nominal GDP	-1.8	4.3	4.4
Employment	3.6	2.9	1.4
Unemployment Rate (%)	5.9	6.7	6.5
Housing Starts (000's)	35.9	40.2	35.4
Existing Home Prices	0.6	7.8	4.1
Home Sales	-8.0	9.3	6.3

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

Saskatchewan

Saskatchewan's construction sector grew at the fastest pace in 15 years last year, pushing 2023 GDP growth to one of the strongest across jurisdictions (Chart 1). The construction boom helped offset contractions in the agricultural and mining industries, which suffered from weather disruptions and falling prices. While hardly breakneck, the province's outlook is brighter than most other parts of Canada. Gains over the next few years are expected to come on the back of rising capital expenditures in the goods sector and firmer agricultural and potash output.

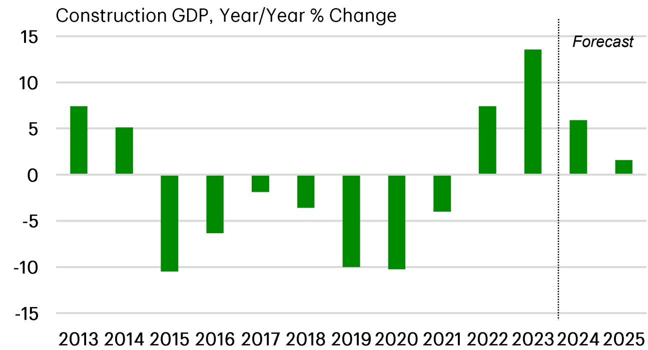
The most recent crop report issued by the Saskatchewan government indicates that pastures have shown marked improvement throughout the province, which has kept seeding operations on track. Barring any major weather events, crop production is on pace for a modest rebound, while demand for Canadian wheat is in focus amidst supply concerns from other major global producers.

Potash, which has overtaken crude oil as the province's number one export, is becoming a leading driver of economic growth. Ongoing construction on Phase 1 of the Jansen potash mine will continue to support investment and employment. Meanwhile, potash production has ramped up over the first quarter of the year. Economic activity is also receiving a nudge from a mild lift in oil production. As is always the case, Saskatchewan's susceptibility to sudden setbacks in key resource prices poses some downside risk, but the current outlook for commodities prices is supportive of continued activity and investment.

For the past several quarters, Saskatchewan's labour market has sported the lowest unemployment rate and highest job vacancy rates across the nation. Having said that, population-driven labour force growth in recent months has pressured the unemployment rate higher (and job vacancy rate lower). Despite slackening, the jobs market remains supportive of ongoing consumer spending gains. With population gains expected to cool, the jobless rate is projected to level off in the second half of 2024.

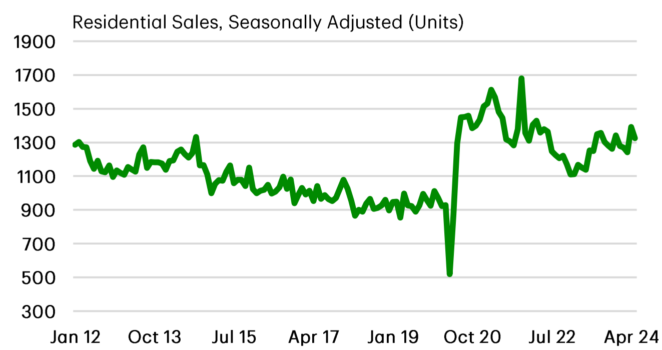
Saskatchewan's relatively affordable housing market has provided some protection against the impacts of ongoing elevated interest rates. Year-to-date home sales are are some of the strongest across provinces and also sit over 40% above pre-pandemic levels (Chart 2). We expect that the commencement of the Bank of Canada's rate easing cycle will continue to ignite demand, driving up sales and price growth at a faster clip than most other provinces.

Chart 1: Saskatchewan's Construction Sector is a Tailwind to GDP Growth



Source: Statistics Canada,TD Economics.

Chart 2: Robust Demand is Fuelling Saskatchewan's Home Sales



Source: CREA,TD Economics.

Saskatchewan Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.6	1.7	1.7
Nominal GDP	-0.3	4.0	3.7
Employment	1.8	1.6	1.1
Unemployment Rate (%)	4.8	5.5	5.5
Housing Starts (000's)	4.6	3.9	4.6
Existing Home Prices	-0.2	4.6	4.4
Home Sales	-3.0	6.4	8.6

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

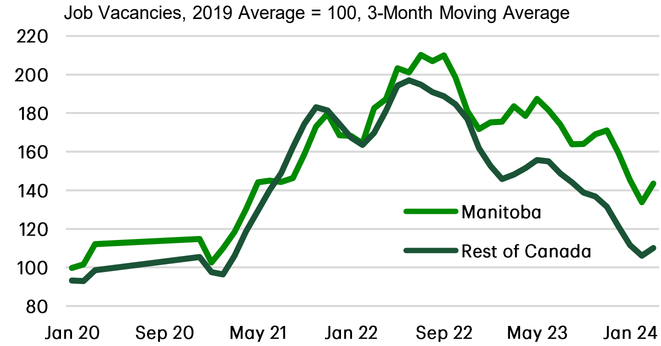
Manitoba

We're retaining our view that Manitoba's economic growth will modestly outperform Canada's this year. A large part of this story is consumer spending. Indeed, according to inflation-adjusted retail spending and our own internal credit and debit card data, consumption has held up slightly better in Manitoba than the rest of Canada so far in 2024. Supporting this outperformance has been relative strength in job growth, as employers work to fill an elevated level of vacancies (Chart 1). And, the number of vacant positions is trending at levels around 40% higher than before the pandemic struck, suggesting some staying power in terms of hiring. Also, households are benefitting from the lowest inflation rate in the country at a mere 0.4% in April (Chart 2), owing in part to the provincial government's fuel tax holiday. In their April budget, the government decided to extend it by another three months to the end of September. With the Bank of Canada now trimming interest rates, Manitoba's relatively indebted households will see some relief moving forward.

The public sector is making a notable contribution to growth this year, consistent with ongoing solid hiring trends. However, this could be a function of robust program spending growth during FY 2023/24, and with spending poised to slow this fiscal year, less of a boost could be on tap in the second half of 2024 and into 2025. Elsewhere, Manitoba's large manufacturing sector has gotten off to a slow start (weighed down by food manufacturing) but should benefit from the combination of continued domestic growth, a solid U.S. economy, and a relatively low Canadian dollar. The construction sector will likely also offer meaningful support to growth this year, consistent with decent capital spending intentions. Perhaps most notably, institutional investment has surged since the latter part of 2023, boosted by the construction of the new Portage Regional Health Centre.

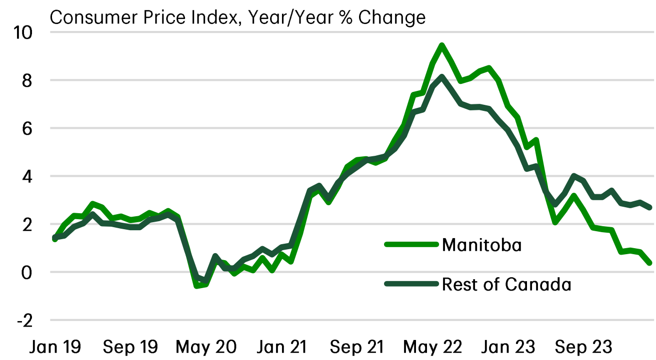
We've downgraded our expectations for Manitoba's important agricultural sector, as recent data reveals little change in the amount of seeded crop area this year compared to 2023. What's more, crop receipts are on a down trend amid softer prices for key crops like canola. Following a very weak 2023, utilities production has increased to begin the year. However, a sustained stretch of positive growth would require the environmental backdrop to cooperate, which remains a risk.

Chart 1: Elevated Vacancies Points to Further Hiring in Manitoba



Source: Statistics Canada, TD Economics.

Chart 2: Manitoba's Economy Nearing Deflation Territory



Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.3	1.3	1.4
Nominal GDP	3.2	3.9	3.4
Employment	2.5	1.8	0.8
Unemployment Rate (%)	4.8	5.1	5.1
Housing Starts (000's)	7.1	5.9	6.2
Existing Home Prices	-2.7	6.0	4.3
Home Sales	-10.0	9.1	5.6

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

Ontario

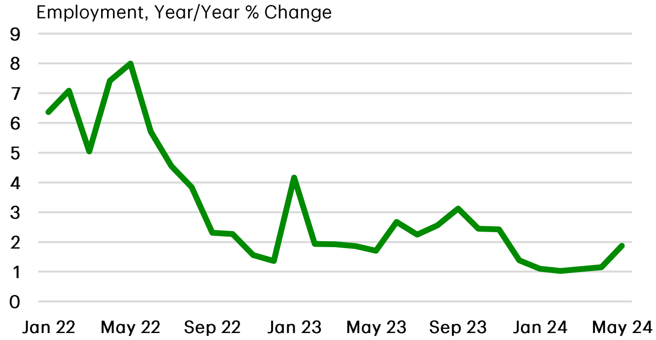
Ontario's economic growth was able to outpace the rest of Canada's last year largely thanks to a healthy dose of government spending. However, consumption was one category where Ontario's trend was relatively soft (in Q4/Q4 growth terms). This makes some sense given the elevated interest rate sensitivity of Ontario's highly indebted households. And, this should be a key factor tipping the scales towards an underperformance for Ontario this year. Consumers will also be impacted by a softening in job growth (Chart 1), especially in the private sector, where employment was effectively flat year-on-year in May. Note that Ontario's unemployment rate has jumped by 1.6 ppts compared to its 2023 low, compared to a 1.2 ppt increase for Canada overall.

So far, we've received mixed messages on how Ontario's consumers are holding up compared to other provinces, with retail sales coming in firmer and our internal debit and credit card data undershooting. The picture does brighten in 2025, given the prospect of continued policy easing by the Bank of Canada that should gradually remove the weight of high debt service costs from consumers.

One area that should be a positive for near-term household spending growth is the housing market. Indeed, we're expecting a healthy gain in Ontario's home sales in the back half the year amid falling interest rates. Average home price growth should trail sales by a notable margin, however, given affordability is near the worst it's been in at least 35 years. For next year, federal caps on foreign students should disproportionately hit Ontario, weighing on rental demand.

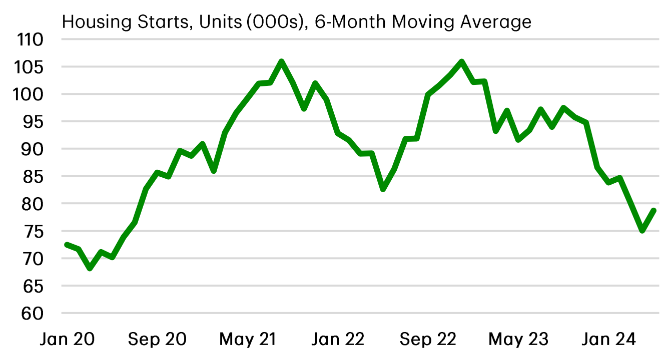
Elsewhere, auto-sector retooling has dampened manufacturing output early in 2024, likely capping Ontario's first quarter growth. Construction activity has also been soft, dragged down weaker residential building. Indeed, homebuilding has careened lower thanks a plunge in multi-family construction (Chart 2). Moving forward, we see little to meaningfully turn this trend around, as housing pre-sales in key markets like Toronto are depressed and input costs are high. That said, government initiatives (such as tax relief for purpose-built rental construction) should help. Notably, non-residential spending will receive a shot in the arm over the medium term from Honda's $15 billion investment in four new EV factories.

Chart 1: Ontario's Consumption Picture Muddied By a Softer Jobs Market



Source: Statistics Canada, TD Economics

Chart 2: Homebuilding Careening Lower in Ontario Amid Elevated Rates



Source: CMHC, TD Economics

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023	2024F	2025F
Real GDP	1.6	0.8	1.5
Nominal GDP	4.3	3.6	3.4
Employment	2.4	1.3	0.9
Unemployment Rate (%)	5.7	6.9	7.1
Housing Starts (000's)	90.0	79.1	85.0
Existing Home Prices	-5.3	-0.2	4.0
Home Sales	-11.8	1.4	19.8

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

Québec

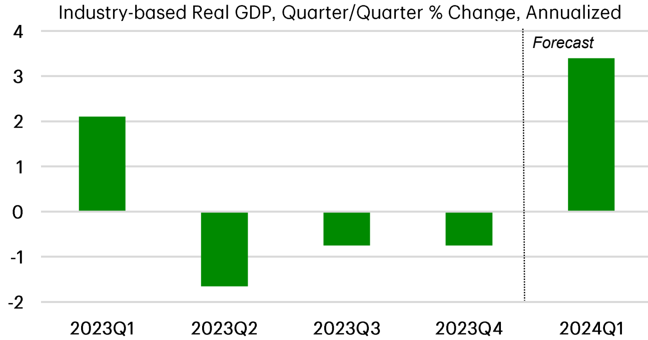
We've upgraded our 2024 Quebec real GDP growth forecast by 0.2 ppts, given what looks to be much-stronger-than expected first quarter growth. Indeed, annualized first quarter GDP growth could be around 3.5% (Chart 1). However, this strength is largely function of a temporary, early year bounce-back in public sector output, after strikes by education and healthcare workers ended late last year.

Beyond the first quarter rebound, economic growth is poised to slow on the back of soft consumer spending. Last year, Quebec's consumption growth was able to match that of Canada's, despite relatively tepid population growth. Inflation-adjusted retail spending is off to a very weak start to the year, as the province's once-overheated jobs market is rapidly cooling (Chart 2), and interest rates remain elevated. Notably, the rise in Quebec's unemployment rate from its early 2023 cycle low (+1.1 ppt) has nearly matched Canada's. This is despite much slower population growth, with the private sector trimming payrolls in response to weak economic growth.

Even with the elevated backdrop for borrowing costs, we expect Quebec's construction sector to make an important contribution to this year's economic growth. Part of this story is a simple bounce-back in residential construction after it fell dramatically last year in what was a steep correction from the massive levels seen in 2021 and 2022. In addition, construction on the $7 billion Northvolt EV battery plant in Montreal is ongoing. When completed in 2026, this plant will join others in Mirabel and Bécancour and will amplify Quebec's EV battery production capacity.

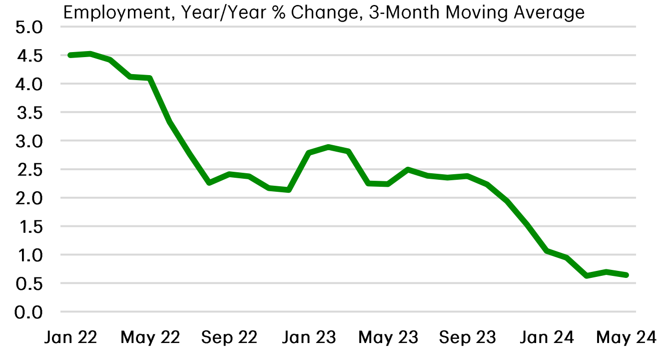
Across other industries, we're anticipating very little growth in utilities output this year, after droughts caused the steepest decline on record in 2023. And indeed, it's not off to a good start. Manufacturing also got off to a shaky start to the year (sales dropped 1% q/q) on broad-based declines in durable goods industries. That said, a firm U.S. growth outlook and low-flying Loonie brightens the near-term outlook a touch. Elsewhere, our forecast anticipates gains in mining production, after devastating wildfires impacted activity in 2023, and it's on track to record a healthy first quarter increase. Importantly, sustained output increases in sectors like utilities and mining will rely on the environmental backdrop co-operating, which is far from guaranteed.

Chart 1: Quebec's Q1 Growth Surge Sets up for a Solid 2024 Performance



Source: Quebec Government, TD Economics.
For 2024Q1, Jan/Feb data is available and March is estimated by TD Economics.

Chart 2: Cooling Job Growth to Keep a Lid on Consumption in Quebec



Source: Statistics Canada, TD Economics.

Québec Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	0.2	0.9	1.2
Nominal GDP	3.7	3.9	3.4
Employment	2.3	0.6	0.5
Unemployment Rate (%)	4.4	5.3	5.8
Housing Starts (000's)	39.5	44.3	46.9
Existing Home Prices	0.3	5.2	3.8
Home Sales	-12.5	10.9	7.0

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

New Brunswick

We've slightly upgraded our 2024 real GDP forecast for New Brunswick (N.B.), putting the province roughly in line with national level growth. For a number of quarters now, the story around N.B.'s economy has remained the same. The province's households carry the least amount of debt relative to their incomes, which has helped to spur nation-leading retail spending growth. Residential investment also continues to hold up as the housing market remains better shielded against higher borrowing costs. On the flip side, GDP growth is being weighed down by softness in the province's export-oriented manufacturing sector.

Similar to the other Maritime provinces, population growth in New Brunswick continues to soar. In the coming quarters, the rate of in-migration is expected to moderate but remain healthy. Notwithstanding a recent uptick in unemployment, the province's job market appears well-positioned to absorb above-average levels of labour force growth given its skew towards public services, an area that is still recording relatively high job vacancy rates.

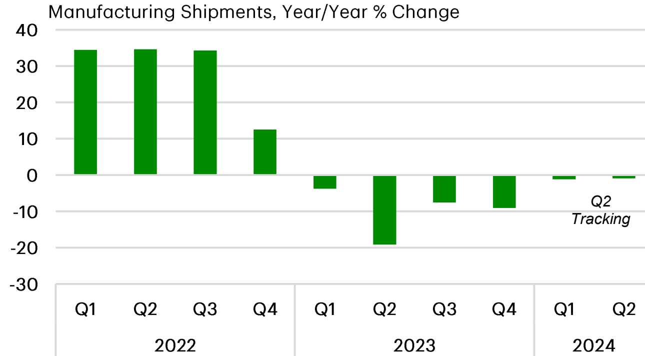
The resilience of the US economy – where 90% of the province's outbound shipments are destined – is cushioning the export sector from a potentially steeper contraction this year. Exports are down so far this year, albeit by a modest 1%. Monetary policy divergence between Canada and US is expected to put downward pressure on the Canadian dollar over the second half of this year, which we expect will help to drive a moderate recovery in exports in 2025. In particular, we expect that manufacturing sales, which have recorded six consecutive quarterly declines, will reach firmer ground by next year (Chart 1).

In contrast, real non-residential spending has surged 10% so far in 2024 relative to the same time last year. This is despite Statcan's release this past February of capital spending intentions that had projected a drop in government and private investment in the current year. In turn, this suggests that the strength we are seeing on the non-residential investment side is unlikely to be sustained over the back half of 2024.

New Brunswick's fiscal situation continues to remain solid compared to its peers and even its own historical track record. It is the only province—alongside Alberta—to project budget surpluses over the next few years and carries the fourth lowest net-debt burden among the provinces. This has left the government with fiscal wiggle room to support growth if needed (Chart 2).

Chart 1: New Brunswick's Manufacturing Shipments Facing Headwinds

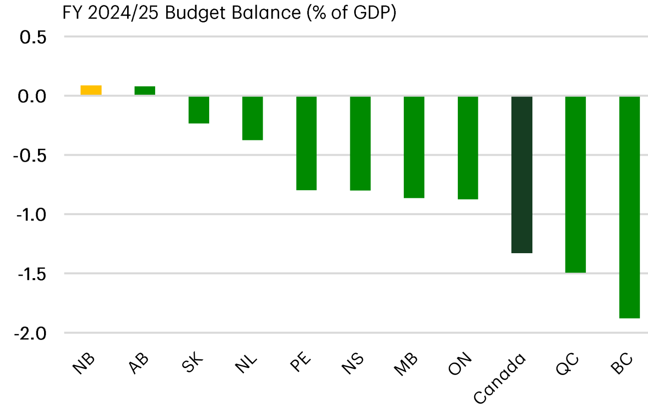
Manufacturing Shipments, Year/Year % Change



Source: Statistics Canada, TD Economics.

Chart 2: New Brunswick's Fiscal Advantage

FY 2024/25 Budget Balance (% of GDP)



Source: Provincial Government Budgets, TD Economics.

New Brunswick Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.3	1.1	1.3
Nominal GDP	3.3	3.2	3.4
Employment	3.4	2.8	0.9
Unemployment Rate (%)	6.6	7.3	7.4
Housing Starts (000's)	4.9	3.0	2.7
Existing Home Prices	2.6	7.6	3.7
Home Sales	-13.6	0.9	8.2

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

Nova Scotia

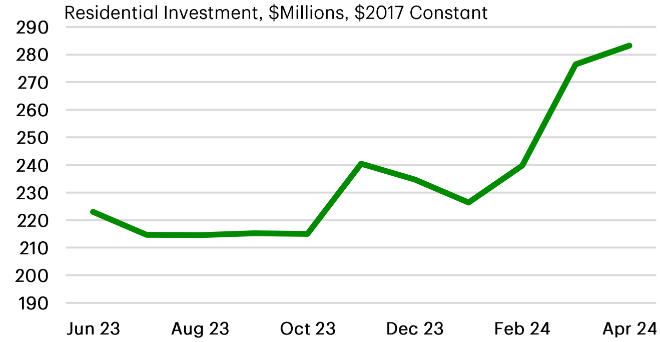
Industry-based real GDP growth decelerated to a sub-trend pace of 1.3% last year, weighed down by declining output in construction and manufacturing. Fortunately, these sectors are likely poised for significant turnarounds this year, contributing to our improved growth forecast for 2024. In the construction sector, inflation-adjusted investment in new buildings was up 13% year-on-year through April (Chart 1). Skyrocketing rents have underpinned a powerful gain in purpose-built rental construction. Moreover, the government's decision to drop the provincial portion of the HST imposed on these types of projects should add more fuel moving forward. Non-residential investment, meanwhile, is being boosted by ongoing work at the large scale QEII hospital redevelopment project.

Manufacturing sales were also up year-on-year through April (albeit more modestly), supported by shipments of tires. The combination of continued solid U.S. demand and a low Canadian dollar suggests that Nova Scotia's manufacturing sector can retain its recent momentum in the near term. Elsewhere, we look for notable 2024 growth contributions coming from the public sector and the province's outsized finance, insurance, and real estate industry. This is consistent with robust year-to-date hiring that we've seen in both industries.

Preventing an even steeper forecast upgrade is the fact that population growth (while still robust) is slowing more rapidly than the rest of the country (Chart 2). While the intake of immigrants and non-permanent residents remains healthy, the long-anticipated cooling in intraprovincial inflows looks to be taking hold. Going forward, an even more pronounced slowdown in population growth is likely to take place. Indeed, as part of its plan to lower the level of non-permanent residents in the country, the federal government is anticipating a 30% reduction from 2023 levels in foreign student study permit approvals.

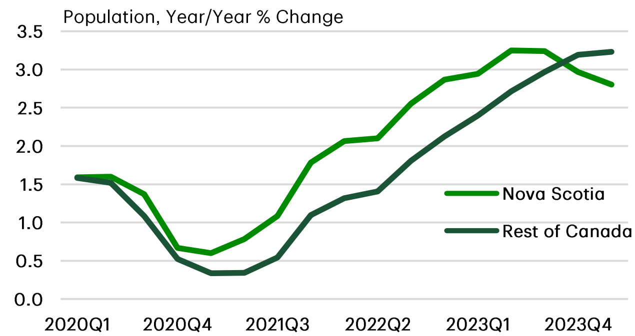
The slowing trend in population growth is likely weighing on consumption. Note that our internal credit and debit card data points to a mediocre spending performance in Nova Scotia so far this year. However, we'd be hesitant to pencil in too much weakness for the consumer in 2024, as hiring remains robust (up 3.8% year-to-date, versus a 1.8% gain in Canada), wage growth is strong, and retail spending is holding up. Next year, household incomes will receive a shot in the arm from tax cuts introduced in the latest budget.

Chart 1: Healthy Homebuilding Powering GDP in Nova Scotia



Source: Statistics Canada, TD Economics

Chart 2: Cooling Population Trends to Sap Some Steam From Domestic Activity in Nova Scotia



Source: Statistics Canada, TD Economics

Nova Scotia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	1.3	1.7	1.3
Nominal GDP	4.2	4.1	3.4
Employment	2.7	3.4	0.2
Unemployment Rate (%)	6.4	6.5	6.8
Housing Starts (000's)	7.2	7.1	5.8
Existing Home Prices	3.1	3.0	3.2
Home Sales	-17.6	2.7	12.5

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

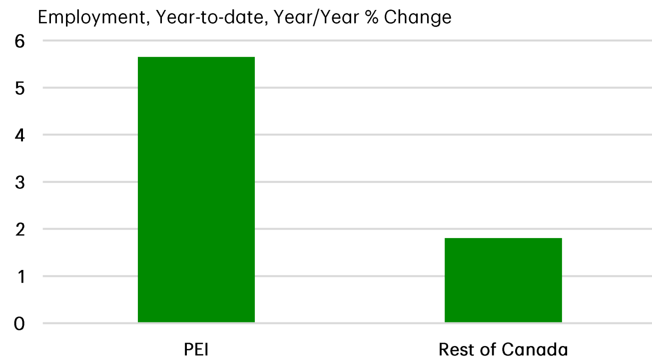
Prince Edward Island

Recently released GDP by industry data indicates that growth in PEI was slower than-expected last year. Still, the economy managed to expand at a healthy 2.2% rate, and the Island looks likely to experience another decent growth year in 2024. Consumer spending is off to a firm start, with our internal debit and credit card data is flashing a meaty 11% year-on-year gain through April. It's no secret as to why consumers are holding up so well, as job growth in PEI is pacing the country by a considerable margin (Chart 1), although it's worth noting that sturdy labour force increases have capped the pace of wage gains. What's more, households are carrying relatively low debt loads, making them less interest-rate sensitive than other parts of the country. Consumer price inflation has also moderated significantly and is up only 1.9% year-to-date. Elsewhere, the manufacturing industry is enjoying a solid start to 2024. And, further support should come from a U.S. economy that's likely to turn in another firm performance this year.

Construction is likely to post a towering gain in 2024, supported by a surge in residential building. Indeed, inflation-adjusted residential investment was up over 100% year-on-year through April (Chart 2). Rental construction is doing the heavy lifting here, boosted by government incentive programs and elevated rents. In addition, engineering investment also looks set to sprint higher in 2024 on the heels of its 20% gain in 2023. This would be consistent with robust provincial government infrastructure plans, and firm capital spending intentions.

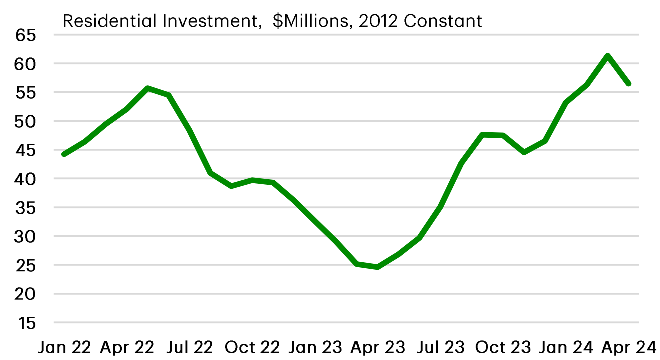
Non-residential construction spending is responding to the explosion in PEI's population base in recent years. Population growth is also propping up household spending, although PEI no longer leads the country in terms of headcount gains - that mantle belongs to Alberta. We're also seeing some evidence that it's beginning to ease up a touch. As remote work is slowly being reigned in, interprovincial migration has cooled for several months. And, next year could bring an easing in non-permanent resident inflows, especially with study permit approvals for foreign students expected to decline from 2023 levels. Slowing population growth is a key factor underpinning our call for weaker economic growth in PEI next year.

Chart 1: Sizzling Job Growth Boosting Household Spending in PEI



Source: Statistics Canada, TD Economics.

Chart 2: Homebuilding Rising in PEI Amid Surging Population Growth



Source: Statistics Canada, TD Economics

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023	2024F	2025F
Real GDP	2.2	2.2	1.8
Nominal GDP	5.0	4.7	4.0
Employment	5.7	3.2	0.3
Unemployment Rate (%)	7.4	7.5	7.9
Housing Starts (000's)	0.9	1.0	1.2
Existing Home Prices	-2.0	0.4	3.0
Home Sales	-5.9	2.2	2.3

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

Newfoundland & Labrador

Newfoundland and Labrador's (N.L.) commodities sector had a difficult 2023. Oil output suffered the largest setback since 2015, while the agriculture, mining, and forestry sectors also took a step back. At an estimated -2.5%, N.L.'s GDP contracted for a second straight year and was the only province to register a decline in total economic output. However, prospects are looking up for an economic bounce back this year and next, driven by an expected turnaround in commodities production alongside healthy growth in the services sector.

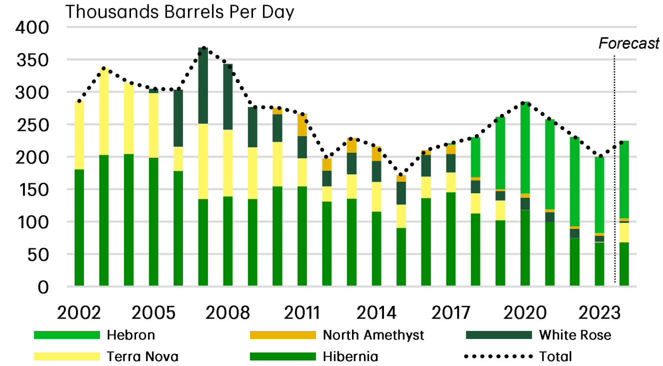
The oil sector accounts for almost one-fifth of total economic output in N&L, the most of any province. Total oil production is expected to advance this year as the Terra Nova oil field gradually ramps up production after being offline for nearly three years (Chart 1). Recent maintenance on the White Rose oilfield may limit the upside to 2024 growth, but with work on that project set to end in Q3-24, production momentum should set the stage for an even stronger real GDP showing in 2025.

Like the oil sector, mining activity is due for a bounce back after two consecutive years of declining industry activity. Metals prices, namely iron ore and copper, have found support as global central banks begin to move into less restrictive policy, which is expected to spur an increase in global demand. The mining sector remains a medium-term bright spot for N.L.'s economy as mineral exploration expenditures ramp up with support from the provincial Critical Minerals Plan.

N.L.'s 2024 provincial budget also showcased a substantial upgrade to its capital investment projections beginning next year (Chart 2). At the core of investment plans are new large-scale wind hydrogen developments and ongoing investments in offshore oilfields.

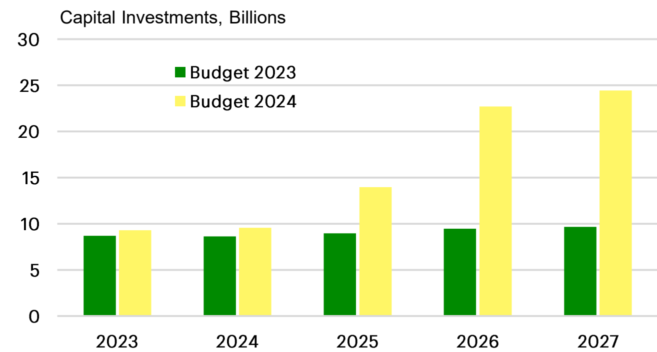
The performance of domestic-oriented industries has held up well and stands to benefit further from the Bank of Canada's interest rate reduction cycle. Unlike the rest of the nation, N.L.'s employment growth has outpaced its labour force, which has kept the unemployment rate near all-time lows. This has broadly supported consumer spending, as evidenced by the solid retail sales showing in the first quarter. What's more, internal TD spending data points to strong start to the second quarter, with N&L leading all provinces in terms of gains in outlays.

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



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

Chart 2: Newfoundland's Capital Investment Projections Upgraded Substantially



Source: Newfoundland and Labrador Budgets, TD Economics.

NFLD & Labrador Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023	2024F	2025F
Real GDP	-2.5	1.8	2.5
Nominal GDP	-5.9	4.3	4.6
Employment	1.7	2.5	-0.4
Unemployment Rate (%)	9.9	10.5	11.3
Housing Starts (000's)	1.0	1.4	1.3
Existing Home Prices	0.7	5.3	2.8
Home Sales	-15.2	1.5	5.8

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.)		
	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F
National	**1.2**	**1.0**	**1.5**	**2.8**	**3.8**	**3.8**	**2.4**	**1.6**	**0.8**	**5.4**	**6.3**	**6.6**	**241.7**	**233.8**	**231.3**	**-3.1**	**0.9**	**5.7**
Newfoundland & Labrador	-2.5	1.8	2.5	-5.9	4.3	4.6	1.7	2.5	-0.4	9.9	10.5	11.3	1.0	1.4	1.3	0.7	5.3	2.8
Prince Edward Island	2.2	2.2	1.8	5.0	4.7	4.0	5.7	3.2	0.3	7.4	7.5	7.9	0.9	1.0	1.2	-2.0	0.4	3.0
Nova Scotia	1.3	1.7	1.3	4.2	4.1	3.4	2.7	3.4	0.2	6.4	6.5	6.8	7.2	7.1	5.8	3.1	3.0	3.2
New Brunswick	1.3	1.1	1.3	3.3	3.2	3.4	3.4	2.8	0.9	6.6	7.3	7.4	4.9	3.0	2.7	2.6	7.6	3.7
Québec	0.2	0.9	1.2	3.7	3.9	3.4	2.3	0.6	0.5	4.4	5.3	5.8	39.5	44.3	46.9	0.3	5.2	3.8
Ontario	1.6	0.8	1.5	4.3	3.6	3.4	2.4	1.3	0.9	5.7	6.9	7.1	90.0	79.1	85.0	-5.3	-0.2	4.0
Manitoba	1.3	1.3	1.4	3.2	3.9	3.4	2.5	1.8	0.8	4.8	5.1	5.1	7.1	5.9	6.2	-2.7	6.0	4.3
Saskatchewan	1.6	1.7	1.7	-0.3	4.0	3.7	1.8	1.6	1.1	4.8	5.5	5.5	4.6	3.9	4.6	-0.2	4.6	4.4
Alberta	1.5	1.9	1.9	-1.8	4.3	4.4	3.6	2.9	1.4	5.9	6.7	6.5	35.9	40.2	35.4	0.6	7.8	4.1
British Columbia	1.6	0.9	1.9	3.4	3.6	4.5	1.6	2.5	0.6	5.2	5.7	6.2	50.6	47.8	42.2	-1.5	1.5	3.5

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

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