TD Economics

Provincial Economic Forecast
Provincial Economies Dealt a 1-2 Punch

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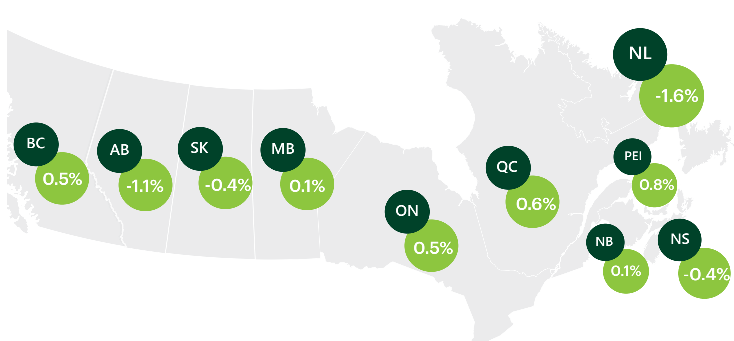
Jump to: BC | AB | SK | MB | ON | QC | NB | NS | PE | NL | Forecast Table

- As if disappointing momentum heading into the New Year wasn't enough. Provincial economies are now confronting widespread impacts related to COVID-19 and the negative commodity price shock. As such, growth forecasts for 2020 have been slashed by a hefty 1.2 ppts on average, with most regions now near zero.
- The virus-related growth impacts are likely to vary somewhat depending on regional industrial mix and momentum. For example, B.C. and the Atlantic region appear most exposed to a decline in tourism activity, while Ontario – which has a bent towards finance and manufacturing -- faces greater vulnerability to supply-chain disruptions and recent dramatic financial market weakness. On the flip side, Quebec and PEI stand out as likely to hold up somewhat better given strong underlying momentum to start the year.
- For the Prairies and Newfoundland & Labrador, other COVID-19 effects have been accentuated by the most significant commodity price shock since 2014. Business investment is already being impacted, with some companies announcing reductions to their capital spending. Even as virus impacts dissipate in H2 2019, the effects of the commodity price slump are likely to linger into next year.
- Labour markets across the country will also be significantly impacted, with some job losses expected in the near term. That said, the temporary nature of the virus impacts drives our expectation that job markets will mostly whether this storm. More notable upward pressure on unemployment rates is anticipated in the commodity-producing regions.
- Housing markets will not be immune to virus-impacts, with broad-based declines in sales anticipated in the near-term. However, as the economy distances itself from the virus, activity should spring back. Given generally tight conditions in resale markets, this should prompt the resumption of relatively solid price growth across most provinces later in the year.
- We expect a solid rebound in growth across most provinces in 2021 as confidence recovers and travel and trade restrictions are eased. That said, the duration of the commodity price shock is less certain, suggesting a more elongated recovery in business investment and increased uncertainty across commodity-centric provinces.

Provincial Real GDP Growth Forecast (2020)



Source: TD Economics. Forecast as of March 2020.

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

British Columbia

After downshifting to a still-decent estimated rate of 1.7% in 2019, real GDP growth in B.C. is poised to virtually stagnate in the year ahead as momentum is sapped by COVID-19-related impacts and a sharp slowdown in growth in key Asian trading partners. With these downside growth pressures likely to wane later this year, B.C.'s economy looks set to vault back to the top of the provincial podium in 2021.

B.C.'s reliance on tourism and its strong business linkages with the Asia region - two areas that have been especially hard-hit by COVID-19 - leave the provincial economy vulernable in the near term. The share of GDP attributable to the tourism sector in B.C. is the highest among the provinces apart from PEI (Chart 1). B.C.'s exports are also highly geared towards commodities, the prices for which have tumbed in the wake of the pandemic.

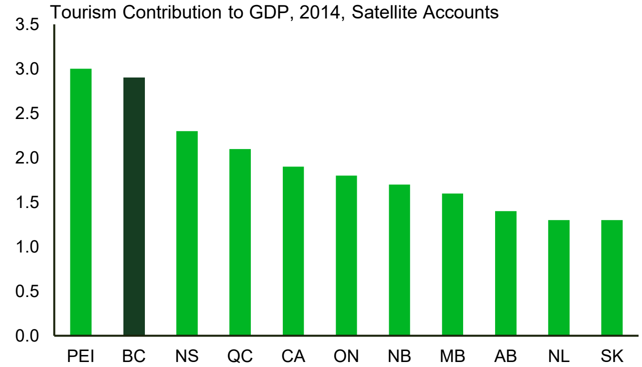
The hit to activity from the pandemic comes at a time when B.C.'s labour markets had been showing signs of slackening. Since mid-2019, net job creation has tailed off amid a downturn in the forestry sector and a mounting drag on hiring exerted by shortages of skilled labour. This latter challenge is puncuated by high job vacancy rates and rapid wage growth. COVID-19 will act as a temporary hurdle to any meaningful job gains.

Beyond the next few months, we remain constructive on B.C.'s outlook. As COVID-19 impacts dissipate, spending and export activity should post a solid recovery in the year's second half. Likewise, near-term weakness in housing markets on the back of increased social distancing and recent stress in financial markets should give way to a strong rebound in resale activity by mid-year.

One area that is expected to hold firm this year is non-residential construction. A recent survey by Statistics Canada revealed a robust +7.8% increase in public/private capital spending intentions, ranking first among the provinces (Chart 2). The LNG Canada project and the Trans Mountain pipeline are two examples of large-scale projects currently in the works.

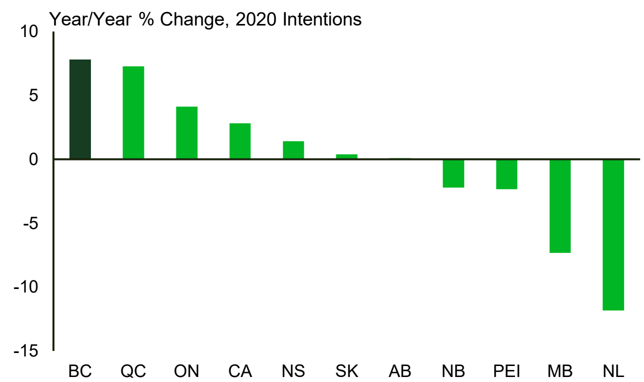
In that vein, B.C.'s recent government budget showcased a 10%+ jump in total capital spending this year. This will be led by ongoing transportation and education projects such as the Pattullo Bridge replacement. B.C.'s fiscal position continues to be one of the healthiest provincially, providing it with ample room to respond if the upcoming period proves more turbulent than expected.

Chart 1: Past Data Suggests that B.C.'s Tourism Sector's Contribution is Higher than Average



Source: Statistics Canada Tourism Satellite Accounts, TD Economics

Chart 2: B.C. Tops the Country Again in Capital Expenditure Growth



Source: Statistics Canada, TD Economics

British Columbia Economic Forecasts [Annual average % change, unless otherwise noted]	2019	2020	2021
Real GDP	1.7	0.5	2.3
Nominal GDP	4.2	2.3	4.2
Employment	2.6	-0.6	1.4
Unemployment Rate (%)	4.7	5.2	5.1
Housing Starts (000's)	45.1	37.6	37.1
Existing Home Prices	-1.5	5.8	3.8
Home Sales	-1.5	3.9	12.0

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

Alberta

Alberta's economy has struggled to shake off the lingering impacts of the 2015-16 recession, recording an uneven and disappointing recovery. And now, after an unforeseen turn of developments in the global oil market, the provincial economy faces its second oil shock in five years – one that is very likely to send Alberta's economy back into recession.

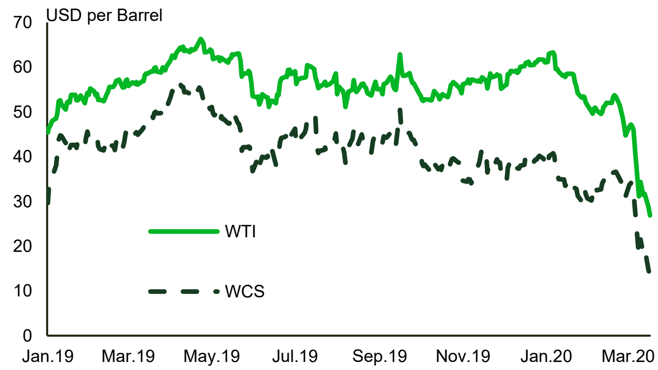
A mix of virus-related financial market stress, oil demand destruction through rapidly-slowing global growth and other channels (i.e, reduced global travel) initially and recent plans to hike production sharply by some OPEC members have sent WTI oil prices (Chart 1) down to US$30 per barrel (see note). Although we anticipate a recovery in prices once the worst of pandemic has past, we have slashed our average forecast for 2020 and 2021 to around US$40 and US$50, respectively. In light of the downgrade in the price outlook, some major producers have already slashed capital expenditure and production guidance for the year.

Despite the stunning drop in oil prices, we don't anticipate the economic impacts in Alberta to be as severe as in 2015-16. For one, the oilpatch is heading into the current downturn considerably less frothy than the oil shock of five years ago, when investment was at its peak (Chart 2). In fact, with the shelving of the Frontier oilsands project, Alberta has been home to virtually no new large-scale projects since 2014.

Still, the shocks are hitting the economy at a time when confidence in the province remains fragile. Alberta's already-high unemployment rate is expected to move higher over the several months, likely fuelling more caution among consumers. The temporary disruptions to service industries due to COVID-19 containment will amplify weakness in the near term.

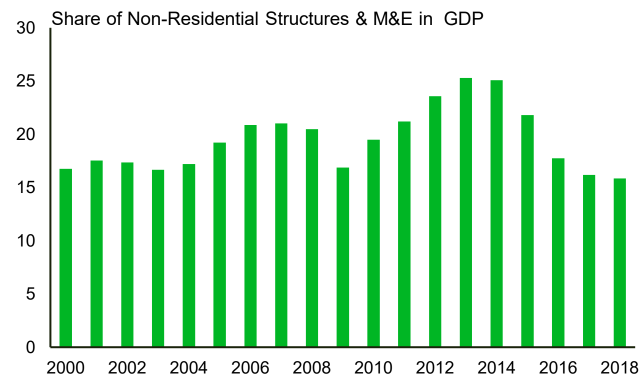
A key area of uncertainty surrounds government coffers. The budget relied on a US$58 assumption for WTI oil prices this fiscal year, which is roughly US$20 higher than our current tracking. Based on the government's own revenue sensitivity to oil prices and the changes in the exchange rate, this implies a budget deterioration of up to $5-$5.5 billion for the year ahead. In turn, this would yield a revised deficit target of $12 billion, all things equal. Given the rapidly-changing landscape and COVID-19 impacts, the government will likely inject stimulus and move away from its plans to balance the budget by FY 2022-23.

Chart 1: Oil Prices Crashed after a Period of Relative Stability



Source: Bloomberg, TD Economics

Chart 2: Alberta's Share of Business Investment in GDP has been Falling Since 2014



Source: Statistics, TD Economics

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	0.4	-1.1	1.9
Nominal GDP	2.1	-2.4	4.1
Employment	0.5	-1.1	0.9
Unemployment Rate (%)	6.9	7.9	8.0
Housing Starts (000's)	27.4	23.5	30.2
Existing Home Prices	-2.4	-1.6	0.5
Home Sales	-0.2	-13.2	6.7

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

Saskatchewan

Saskatchewan's economy is likely to have treaded water in 2019 amid headwinds within its commodity and household sectors. Expectations for a decent growth uptick this year -- as recently as January -- have been promptly quashed by COVID-19 and weakness in oil and other resource prices that have followed in its wake.

The recent slide in crude oil prices is set to weigh on an already-challenging investment environment in the province. Home to a broad mix of commodity industries, Saskatchewan's economy is considerably better diversified than its neighbor to the west, leaving it less exposed to the price shock. Still, production in larger existing oilsands projects in Alberta tend to be less responsive to oil price declines than Saskatchewan's smaller conventional projects.

The potash sector started the year on a weak footing following the announcement of temporary closures late last year in response to slowing global demand, rail strikes, and temporary bans on imports in China. While production is expected to recover in the year ahead, the weak handoff and disruptions to global trade will be a dampening influence on performance. Within the uranium industry, prospects remain soft amid still-suspended output at the McArthur River mine and lackluster prices.

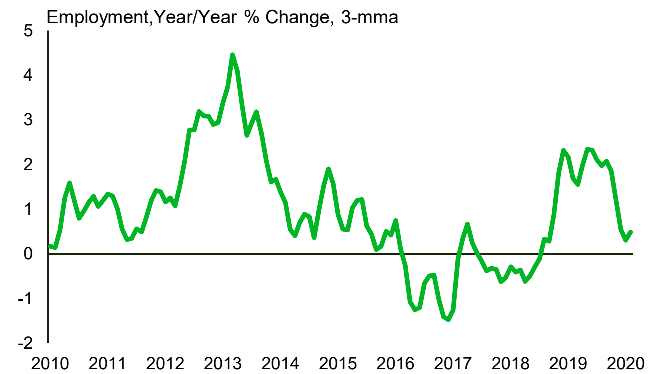
Despite a tough growing season, the province managed to record a decent increase in crop production last year. However, the agricultural sector continues to face some notable headwinds. Prices have taken a hit along with the rest of the commodity complex in recent months. Last year, trade restrictions on canola and a global oversupply in soybeans sent overall exports to China down more than 30% (Chart 1). Rail disruptions earlier in the year and a severe slowdown in Chinese growth post-virus will also likely weigh on crop and livestock marketings this year.

Elsewhere in the economy, performance has been a mixed bag. An end to construction on large-scale public sector projects, such as the Regina Bypass, will act as a further drag on growth this year. Labour markets made some important strides in 2019, including a pickup in job creation and reduction in unemployment. So far this year, however, hiring has moderated (Chart 2). In the near term, Saskatchewan's households will navigate rougher waters as the commodity shock and COVID-19 impacts incomes and employment gains in the province.

Chart 1: Overall Exports to China Tumbled Last Year

Source: Statistics Canada, TD Economics

Chart 2: Employment Growth in Saskatchewan Has Been Slowing Down



Source: Statistics Canada. TD Economics

Saskatchewan Economic Forecasts [Annual average % change, unless otherwise noted]	2019	2020	2021
Real GDP	0.6	-0.4	1.6
Nominal GDP	2.0	-0.9	3.7
Employment	1.6	-0.1	0.7
Unemployment Rate (%)	5.4	6.5	6.2
Housing Starts (000's)	2.4	3.1	4.2
Existing Home Prices	-0.5	-5.0	0.4
Home Sales	1.1	-12.5	8.6

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

Manitoba

Manitoba's economy is estimated to have recorded a tepid performance last year. Additionally, fourth-quarter indicators pointed to a soft end to 2019 as manufacturing sales were flat, retail trade dropped and hiring was sub-par.

On a better note, activity data for January and February have generally come in on the strong side, raising hopes that Manitoba's economy might be poised to break out of its recent lull. Unfortunately, however, this nascent momentum is quickly being sapped by the COVID-19 virus, which is set to drive significant near-term disruptions to provincial activity in the second quarter. However, economic growth should look better in the second half of the year, as the impact from the virus wanes.

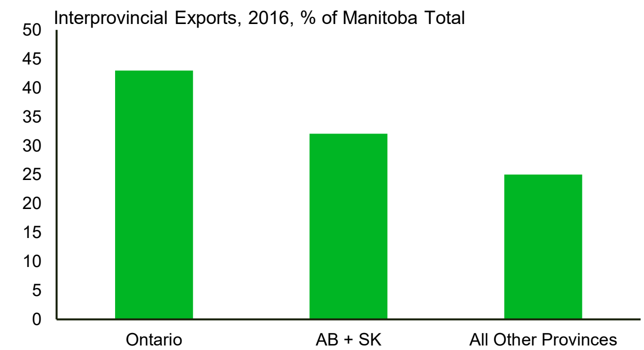
While the direct constraining effects of COVID-19 are likely to dominate in the near term, the economy is also facing some mounting indirect impacts. Plunging oil prices will weigh significantly on the economies of Alberta and Saskatchewan, two major trading partners for Manitoba (Chart 1). This is important as interprovincial exports from Manitoba make up a larger share of total shipments than those bound for international destinations. Meanwhile, China's ongoing ban of canola seeds bodes poorly for incomes in the province. And, their pledge to ramp up imports of agricultural products from the U.S. as part of the Phase 1 trade deal could come at the expense of Manitoban-made goods.

Elsewhere, spending on non-residential structures is set to plunge this year, weighed on by the ratcheting down of the massive Keeyask hydroelectric project and the completion of other major projects in recent years. This view is consistent with the latest capital investment intentions survey, which showed that companies planned to slash spending on structures by 14% in 2020 (Chart 2).

Manitoba typically loses more people to other provinces than it gains. However, the rate at which this is occurring is intensifying. Through three quarters of 2019, net interprovincial migration was lowest it's been since the late 1980s. And, with another weak economic performance in the cards for this year, there is little scope for meaningful turnaround. More moderate population growth will keep a lid on consumer spending while ensuring slower homebuilding compared to its recently strong pace.

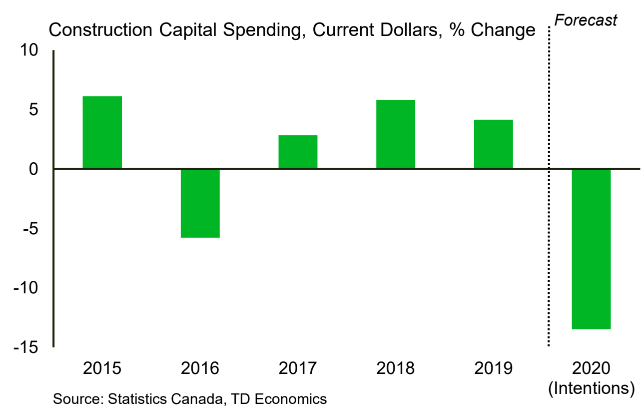
Prospects are better for Manitoba in 2021, in tandem with improved fortunes of its Prairie neighbours and the U.S.

Chart 1: Weakened Alberta and Saskatchewan Markets an Important Destination for Manitoba's Exports



Source: Statistics Canada, TD Economics

Chart 2: Construction Spending Set to Plunge in Manitoba This Year



Source: Statistics Canada, TD Economics

Manitoba Economic Forecasts [Annual average % change, unless otherwise noted]			
	2019	2020	2021
Real GDP	1.2	0.1	1.9
Nominal GDP	2.2	0.7	3.9
Employment	0.9	0.9	0.7
Unemployment Rate (%)	5.3	5.6	5.5
Housing Starts (000's)	7.0	6.3	6.1
Existing Home Prices	0.1	-2.1	4.3
Home Sales	8.5	3.6	8.0

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

Ontario

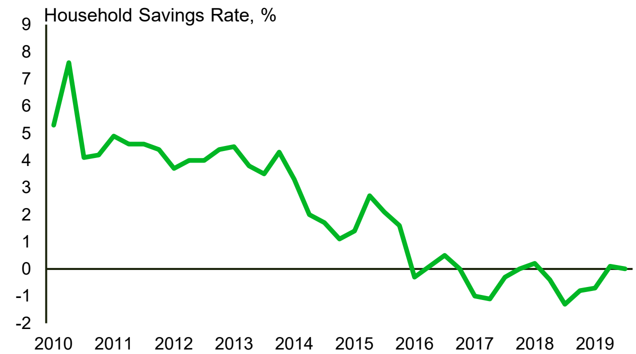
Heading into the current period of turmoil, Ontario's economy was already going through a tough stretch. After recording a robust 2.4% annualized expansion in third quarter of last year, economic growth has appeared to slow to a negligible rate. Part of the softness of late can be chalked up to idiosyncratic factors, including the shuttering of production at the GM plant in Oshawa and disruptions to rail transportation. Moreover, throughout this recent lull, housing activity remained relatively firm and hiring was positive, on balance, in the first two months of 2020. These dynamics suggest some underlying resilience as COVID-19 reered its ugly head.

The spread of COVID-19 is expected to lead to large, broad-based contractions in output across Ontario's key industries over the next few months. While activity should begin to regain its footing by the end of the second quarter, a full recovery is not expected until well into the second half. Highly-indebted households, for one, were in a vulnerable position heading into the COVID-19 crisis (Chart 1). Confidence and spending will now be delivered a further blow by disruptions to income and sharp declines in financial asset values. At the same time, impacts on domestic spending will be mitigated somewhat by the extreme policy measures being rolled out at the federal and provincial levels, including lower interest rates, household income supports and credit assistance for businesses.

While many businesses are expected to navigate this difficult time through reductions in hours worked as opposed to layoffs, the unemployment rate in the province is likely to trek above 5.9% in the coming months and persist that higher level through the end of the year (Chart 2). Wage gains, which have perked up in recent months, are likely to pull back over the near term as job market slack builds.

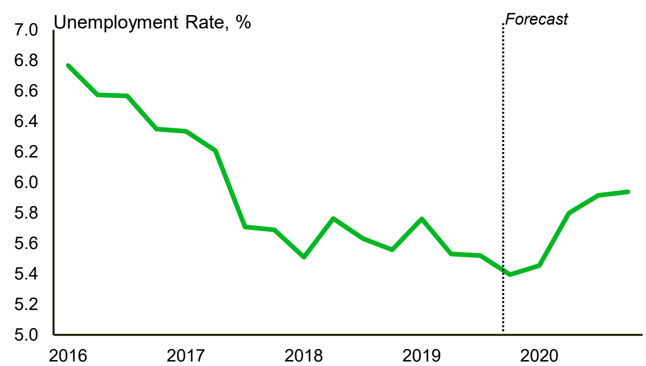
As the economy begins to revive later this year, housing activity should quickly reassert itself as a growth leader. Prior to the spread of COVID-19, housing prices were accelerating rapidly. In the near term, housing activity is likely to slow to a crawl given social distancing measures. However, the recent plunge in interest rates to emergency levels during the crisis are likely to stoke V-shaped rebounds in sales once the virus dissipates and pent-up demand is unleashed.

Chart 1: Ontario's Households Are Highly Indebted and Have Little Savings, Creating Vulnerability to COVID-19 Shock



Source: Ontario Government, TD Economics

Chart 2: Adjustments to Hours Worked, Gov't Stimulus Will Keep Ontario's Unemployment Rate from Spiking



Source: Statistics Canada, TD Economics

Ontario Economic Forecasts [Annual average % change, unless otherwise noted]			
	2019	2020	2021
Real GDP	1.6	0.5	2.1
Nominal GDP	3.6	2.2	3.9
Employment	2.9	1.3	1.2
Unemployment Rate (%)	5.6	5.8	5.7
Housing Starts (000's)	68.9	73.8	79.8
Existing Home Prices	6.2	11.7	4.0
Home Sales	8.9	7.9	10.8

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

Québec

At a 3.6% annualized rate, Quebec's economy chalked up another impressive performance in the third quarter of last year, thanks to strength in domestic demand. However, growth likely slowed to a crawl in the fourth quarter. Casting our gaze to this year, Quebec's streak of above-trend annual growth performances looks set to come grinding to a halt. The spread of the COVID-19 virus should exert a large - though temporary - drag on the economy over the next few months and push up the province's jobless rate off its recent lows. Next year, some recovery should occur as the impact of the virus dissipates.

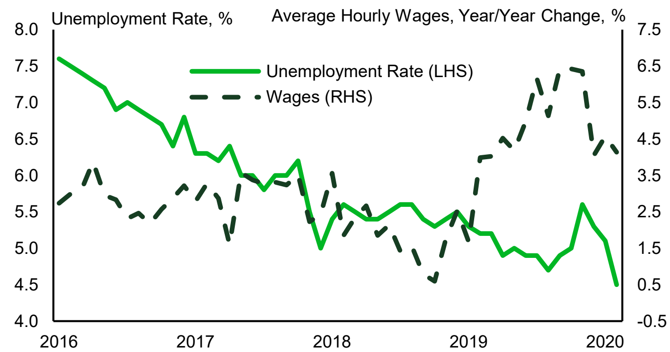
Among the various COVID-related impacts, Quebec's economy is somewhat more vulnerable to reduced tourist traffic given its outsized tourism industry. In addition, households in Quebec hold a relatively high share of their wealth in financial assets, leaving them more exposed to the recent bout of financial market stress. However, plunging oil prices will likely cushion the blow, given Quebec's status as a net oil importer.

Although we are forecasting sharply slower growth this year, Quebec's economy should still outperform the rest Canada, owing to a healthy starting position prior to the spread of the virus. The unemployment rate was at an all-time low in February (4.5%) and wages were growing at a rapid 4.1% pace (Chart 1). At the same time, household balance sheets are currently in relatively good shape. These positive forces should provide support to consumption. In addition, as set out in the latest budget, the provincial government is using its healthy fiscal position to maintain robust spending growth and deliver targeted tax relief.

Non-residential spending has been growing at faster pace in Quebec compared to the rest of Canada (Chart 2). And, the latest survey of capital spending intentions points to a strong year on this front in 2020. Indeed, Quebec's 2020 capital spending plans are the second strongest of any province, trailing B.C. by a slim margin.

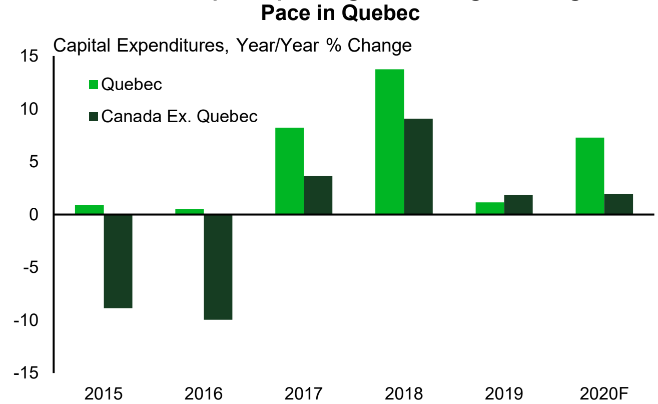
Quebec sports some of the tightest housing markets in Canada. Given this tightness, prices should rise strongly in the back half of this year, once the drag from COVID-19 reduces. Homebuilders are responding in a major way to rising demand, with starts on track to post their strongest showing since the early 1990s in the first quarter. Moving forward, residential construction should return as a source of strength following a brief virus-related disruption.

Chart 1: Labour Markets in Good Shape Prior to COVID-19 Outbreak



Source: Statistics Canada, TD Economics

Chart 2: Capital Spending Proceeding at Strong Pace in Quebec



Source: Statistics Canada, TD Economics

Québec Economic Forecasts [Annual average % change, unless otherwise noted]	2019	2020	2021
Real GDP	2.8	0.6	2.1
Nominal GDP	4.5	2.4	3.9
Employment	1.7	0.8	0.3
Unemployment Rate (%)	5.1	4.9	5.2
Housing Starts (000's)	48.2	49.3	46.2
Existing Home Prices	5.1	8.3	3.2
Home Sales	11.8	16.2	11.7

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

New Brunswick

Momentum in New Brunswick's economy was stronger-than-expected in late 2019, prompting a modest upgrade to our growth forecast for last year (0.8%). Like most of its provincial peers, New Brunswick's economy will take a hit this year as COVID-19 temporarily weighs on its business and consumer spending.

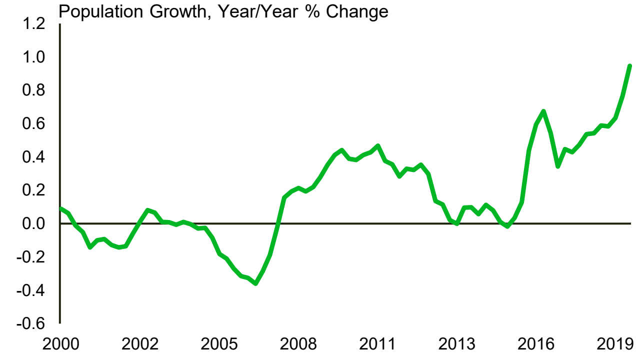
The negative impacts from the COVID-19 pandemic arise at a time when growth in New Brunswick's manufacturing and export sectors had been gaining traction. Part of the recent pickup in activity reflects the ongoing recovery in output at the Saint John refinery following an explosion in late 2018. Looking ahead, a shutdown in the Belledune lead smelter late last year is poised to limit manufacturing's upside later this year. While COVID-19-related impacts on factory activity will be visible over the next few months. New Brunswick's relatively high export orientation towards the U.S. market will partially shield it from the more severe disruptions seen elsewhere in Asia and Europe.

Elsewhere in the economy, non-residential construction activity is expected to remain subdued this year, as revealed in the recent release of the 2020 Capital Expenditures and Repair Survey by Statistics Canada. Only a modest offset is likely to come from increased public sector investment, given the government's intent on reducing its net debt.

Population gains, which have been in positive territory since 2016 (Chart 1), have recently accelerated to 1% (y/y). Gains in labour force and employment in 2019 (0.8% and 0.7%, respectively) were the highest since the financial crisis (Chart 2). As a result, the province's housing markets have been stepping on the gas pedal, with home starts and resales both surging 26% and 13% last year, respectively. COVID-19 will weigh on overall output and job market performance in the near term, but activity should bounce back later in the year, supported in part by reduced borrowing rates.

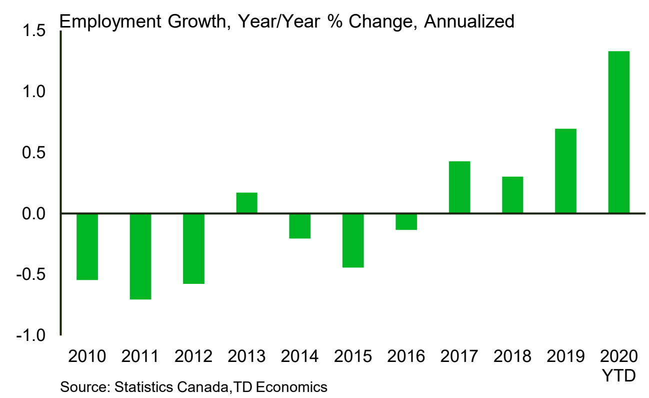
New Brunswick's recently-released budget (see note) was approved by the legislature last week. So far, a low COVID-19 case count (if maintained) has kept the government's fiscal response in check. Still, recent improvement sin the Province's fiscal position provides it with more capacity to turn on the taps, if need be, to mitigate the short-term negative impacts of the pandemic.

Chart 1: New Brunswick's Population Growth Has Surged in the past Two Years



Source: Statistics Canada, TD Economics. Last data point 2019Q4.

Chart 2: Recent Momentum Has Been Very Strong in New Brunswick's Labour Markets



Source: Statistics Canada,TD Economics

New Brunswick Economic Forecasts [Annual average % change, unless otherwise noted]	2019	2020	2021
Real GDP	0.8	0.1	0.9
Nominal GDP	2.6	1.8	2.7
Employment	0.7	0.5	-0.1
Unemployment Rate (%)	8.0	7.8	8.0
Housing Starts (000's)	2.9	2.5	2.6
Existing Home Prices	2.7	4.0	4.9
Home Sales	13.4	4.3	9.6

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

Nova Scotia

Nova Scotia's economy lost some steam in the second half of last year. Job growth eased from an unsustainably strong first half pace and, as a result, the unemployment rate crept higher. Wage growth was also relatively subdued. In addition, activity in the manufacturing, wholesale and retail sectors moderated in the second half, as consumers became more cautious and export activity slowed. It wasn't all bad news however, as population growth remained robust. All told, growth likely eased to a 1.2% rate last year – the slowest gain since 2015.

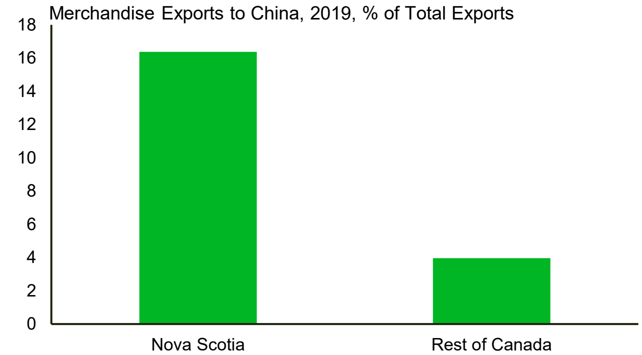
Like many of its counterparts, Nova Scotia is in for a tough year economically in 2020, with growth on track to slump to its weakest rate since 2012. Not only was momentum waning heading into this year, the economy was hit by February's rail blockades. And, more recently, the COVID-19 virus is poised to deliver a blow to consumer and business spending that is likely to extend over the next few months, generating upward pressure on the unemployment rate.

While an economic recovery is likely to begin by the late spring, some pressures on the economy look set to linger through the second half and into 2021. This includes the large tourism industry, which could face depressed traffic as global tourist confidence is slow to recover. In addition, Nova Scotia's growing reliance on China as an export destination makes it more vulnerable than most other provinces to the post-COVID-19 collapse in the Middle Kingdom's economy. Last year, China accounted for 16% of Nova Scotia's nominal merchandise exports, the highest share of any province (Chart 1).

At the same time, some offset to these negative forces will come from the provincial government's plan to ramp up infrastructure spending significantly, starting this year (Chart 2). While the onset of the virus could derail this ambitious plan in the near-term, its resumption would pave the way for stronger growth in the second half of this year and 2021.

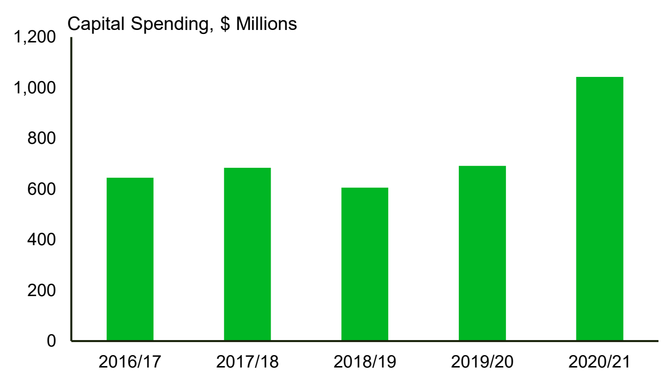
Next year, economic growth should benefit from the waning in impacts related to both this year's Northern Pulp Mill closure and the COVID-19 spread. Population growth will likely also be reasonably healthy, underpinned by rising federal immigration targets. This should boost consumer spending, homebuilding activity, and home sales. Meanwhile, the resumption of tight conditions in resale markets should lead to stronger home price growth in 2021.

Chart 1: Nova Scotia Highly Exposed to the Battered Chinese Economy



Source: Statistics Canada, TD Economics

Chart 2: Ramped up Capital Spending Plans to Provide Some Offset to COVID-19 in Nova Scotia



Source: Nova Scotia Government, TD Economics

Nova Scotia Economic Forecasts [Annual average % change, unless otherwise noted]			
	2019	2020	2021
Real GDP	1.2	-0.4	1.3
Nominal GDP	3.3	1.3	3.1
Employment	2.2	0.6	0.1
Unemployment Rate (%)	7.2	7.9	7.9
Housing Starts (000's)	4.7	5.0	4.9
Existing Home Prices	8.0	3.8	4.3
Home Sales	10.6	0.2	10.9
Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics			

Prince Edward Island

Since 2016, PEI's economy has outperformed Canada's, as robust population growth stoked outsized gains in domestic demand. This outperformance appears to have been particularly pronounced last year. Impressively, PEI's economy held up well in the final quarter in 2019 (Chart 1), in stark contrast to several other provinces. Manufacturing and wholesale trade climbed higher and private-sector employers added to payrolls. In addition, non-residential construction activity increased. The only (minor) blemish was that population growth eased, though remained well above its long-term average.

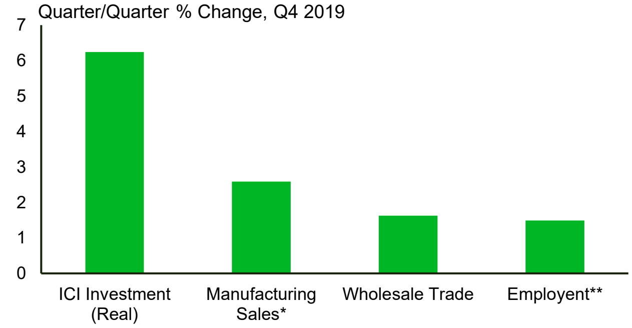
While the healthy momentum would normally signal good times ahead, the COVID-19 virus is set to inflict major damage on PEI's economy in 2020. The outbreak is likely to hit PEI's relatively large tourism industry, weighing on output in accommodation and food services, arts, entertainment and recreation, as well as retail spending. In addition, extremely weak growth in other provinces, driven by the spread of the virus, will dampen interprovincial shipments, which are very important to the Island (Chart 2).

Offsetting the hit from COVID-19, PEI's government has pledged to hike infrastructure spending by around 80% compared to the prior plan over the next two fiscal years. This should nicely complement the boost to residential construction coming from provincial initiatives meant to increase the supply of affordable housing in the province.

Population growth is likely to slow this year. However, 2021 could see an improved performance, as the government continues to lever the Provincial Nominee Program and businesses make further use of the Atlantic Immigration Pilot. The federal government has raised its immigration targets and there is mounting evidence that the Island has improved its integration of these newcomers into the labour market in recent years. This should support a pickup in domestic economic activity next year.

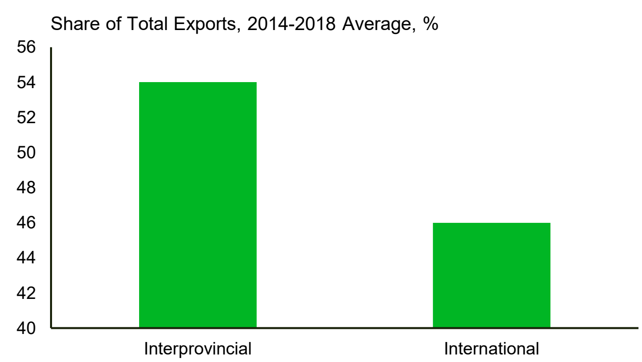
PEI's rapidly expanding population has stoked strong gains in home prices. As a result, affordability has eroded to the point that PEI has among the worst affordability conditions, relative to its own history, of any province. This lack of affordable housing supply should constrain home sales moving forward.

Chart 1: PEI's Economy Had Decent Momentum Heading into This Year



Source: Statistics Canada, TD Economics
* Includes January 2020 and compares 4 months to prior 4, ** Includes Jan/Feb 2020 and compares 5 months to prior 5

Chart 2: Interprovincial Exports Matter for PEI, Making It Levered to Weak Canadian Economy



Source: Statistics Canada, TD Economics

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	2.7	0.8	1.9
Nominal GDP	4.7	2.5	3.7
Employment	2.7	2.7	0.3
Unemployment Rate (%)	8.8	8.4	8.6
Housing Starts (000's)	1.3	1.2	1.2
Existing Home Prices	11.7	16.2	3.6
Home Sales	-6.8	4.6	11.0

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

Newfoundland & Labrador

Last year's moderate revival in economic growth is likely to prove short-lived. With the provincial economy highly reliant on its oil sector, the recent plunge in Brent prices (Chart 1) is poised to send real output back into contractionary territory in 2020. Disruptions from COVID-19 and an expected drop in non-residential construction are other factors darkening the near-term outlook.

Rising output at the Hebron oilfield was instrumental in driving the provincial economy's return to growth last year. That said, prospects for the oil and gas sector have been dampened by a combination of demand and supply shocks in the global oil market that have sent Brent prices crashing to US$30 per barrel (see note). In light of this development, we have cut our medium-term oil price by around $15 per barrel, to the US$40-45 range. Increased offshore exploration had recently been a budding area of optimism for the province's economy. Such plans will likely be scaled back significantly in the near term given the impacts of the oil price shock on corporate incomes.

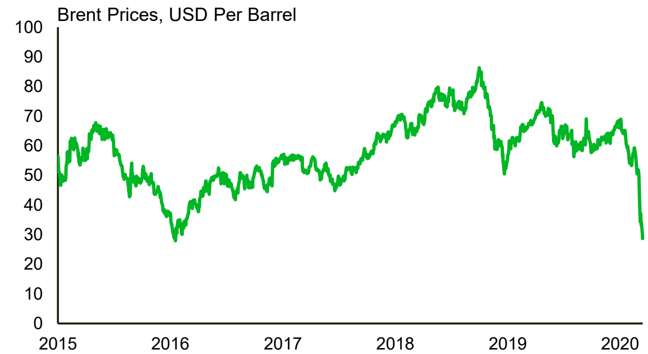
The broad outlook for capital expenditures looks tepid. Indeed, Statistics Canada revealed a 11.8% drop in capital spending intentions for 2020, the weakest among the provinces. Meanwhile, construction on ongoing projects such as Voisey's Bay expansion will be scaled back in light of COVID-19 containment efforts.

Turning to the household sector, decent employment gains and a low unemployment rate last year helped to drive an firmer home resale activity. Looking ahead, households in the region are likely to turn more cautious in light of COVID-19, weaker job markets, and an uptick in the province's unemployment rate.

Unlike its Atlantic Canada peers, Newfoundland & Labrador's poulation growth has trended in negative territory for the past three years. A rapidly aging population will continue to weigh on the region's labour force growth, that is barring a meaningful and persistent increase in newcomers to the province.

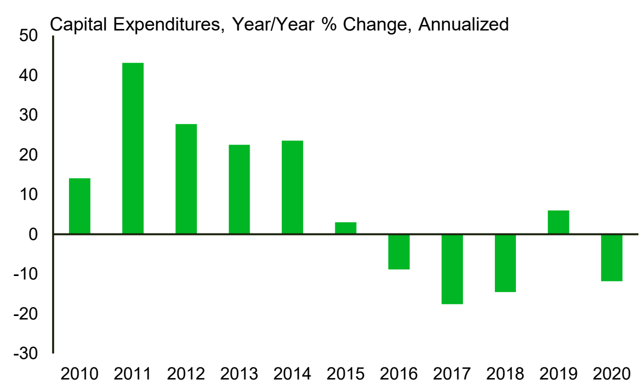
Last fall, the government's fiscal update revealed a worse-than-expected structural deficit for FY 2019-20. The province's reliance on resource royalties as a major revenue source present clear downside risks for the upcoming fiscal year. Unlike other oil-producing provinces, Newfoundland & Labrador has little capacity to ramp up deficit spending given its already-elevated net debt to GDP ratio.

Chart 1: Brent, the Benchmark for the Province's Oil, Also Crashed Recently



Source: Bloomberg, TD Economics

Chart 2: Newfoundland and Labrador's Capital Expenditures Expected to be Subdued



Source: Statistics Canada,TD Economics

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	2.0	-1.6	1.0
Nominal GDP	3.6	-2.6	3.1
Employment	0.7	-1.7	-0.2
Unemployment Rate (%)	11.9	12.0	12.2
Housing Starts (000's)	0.9	1.3	1.2
Existing Home Prices	-3.0	-5.8	-1.4
Home Sales	9.6	-3.8	5.1

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.)		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**
National	**1.6**	**0.2**	**2.1**	**3.6**	**1.4**	**4.0**	**2.1**	**0.5**	**0.9**	**5.7**	**6.0**	**6.0**	**209**	**204**	**213**	**2.3**	**9.1**	**3.8**
Newfoundland & Labrador	2.0	-1.6	1.0	3.6	-2.6	3.1	0.7	-1.7	-0.2	11.9	12.0	12.2	0.9	1.3	1.2	-3.0	-5.8	-1.4
Prince Edward Island	2.7	0.8	1.9	4.7	2.5	3.7	2.7	2.7	0.3	8.8	8.4	8.6	1.3	1.2	1.2	11.7	16.2	3.6
Nova Scotia	1.2	-0.4	1.3	3.3	1.3	3.1	2.2	0.6	0.1	7.2	7.9	7.9	4.7	5.0	4.9	8.0	3.8	4.3
New Brunswick	0.8	0.1	0.9	2.6	1.8	2.7	0.7	0.5	-0.1	8.0	7.8	8.0	2.9	2.5	2.6	2.7	4.0	4.9
Québec	2.8	0.6	2.1	4.5	2.4	3.9	1.7	0.8	0.3	5.1	4.9	5.2	48.2	49.3	46.2	5.1	8.3	3.2
Ontario	1.6	0.5	2.1	3.6	2.2	3.9	2.9	1.3	1.2	5.6	5.8	5.7	68.9	73.8	79.8	6.2	11.7	4.0
Manitoba	1.2	0.1	1.9	2.2	0.7	3.9	0.9	0.9	0.7	5.3	5.6	5.5	7.0	6.3	6.1	0.1	-2.1	4.3
Saskatchewan	0.6	-0.4	1.6	2.0	-0.9	3.7	1.6	-0.1	0.7	5.4	6.5	6.2	2.4	3.1	4.2	-0.5	-5.0	0.4
Alberta	0.4	-1.1	1.9	2.1	-2.4	4.1	0.5	-1.1	0.9	6.9	7.9	8.0	27.4	23.5	30.2	-2.4	-1.6	0.5
British Columbia	1.7	0.5	2.3	4.2	2.3	4.2	2.6	-0.6	1.4	4.7	5.2	5.1	45.1	37.6	37.1	-1.5	5.8	3.8

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at March 2020.