TD Economics

Provincial Economic Forecast

The Stars Align: Growth Prospects Marked Up Across Regions

March 19, 2021

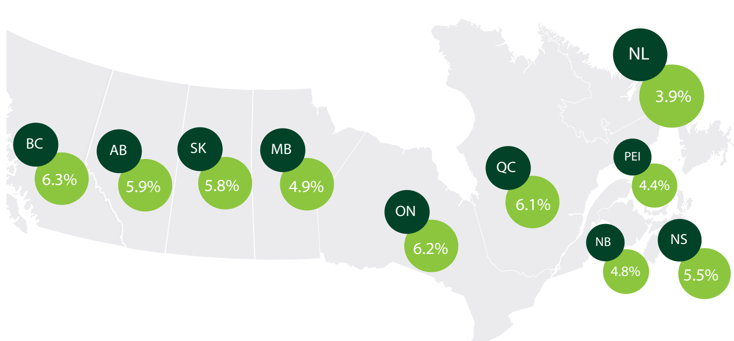
Contributing Authors

- Beata Caranci, Chief Economist | 416-982-8067
- Derek Burleton, Deputy Chief Economist | 416-982-2514
- Omar Abdelrahman, Economist | 416-734-2873
- Rishi Sondhi, Economist | 416-983-8806

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

- 2021 growth prospects have been revised upwards by 0.2-1.3 percentage points from coast-to-coast in this edition of the Provincial Economic Forecast.
- With COVID-19 case counts and hospitalizations down sharply since their January peak, provinces across Canada have started to ease restrictions, albeit to varying degrees. This – along with progress in vaccinating their most vulnerable populations – sets up for a brighter near-term picture.
- The economic impacts of the second wave have been uneven across the provinces, though a uniform theme has been resilience. Provinces with greater restrictions, including Ontario, Manitoba, Quebec, and Alberta have suffered larger employment setbacks. Even then, hours worked have suffered a lesser hit. Meanwhile, the milder outbreak and lack of restrictions in B.C. and some of Atlantic Canada's provinces are paving the way for a speedier recovery in these regions.
- After a difficult start, vaccine rollouts have started to gain pace across the country. Recent decisions to prioritize first doses and the approval of two additional vaccine candidates should further accelerate the timeline. Provinces now anticipate being able to supply first doses to their adult populations by early summer.
- Other forces have joined in to lift growth prospects. A swift economic recovery in the U.S., complimented by a sizeable stimulus package, should propel provincial exports. Some provinces are also reaping the benefits of a commodity bull market. Indeed, the solid bounce back in the WTI benchmark price above the US$60 provides much needed respite for Alberta, Newfoundland & Labrador, and Saskatchewan. The agriculture industry, a strong performer despite the pandemic, should continue to support the Prairie provinces.
- Canada's supercharged housing market has shown little signs of slowing in the early part of 2021. We remain of the view that the current record sales pace is unsustainable and look for some slowing later in the year. Still, given the current drum-tight conditions, downside to prices appears limited, with most markets on track to record double-digit gains in 2021.

Provincial Real GDP Growth Forecast (2021)



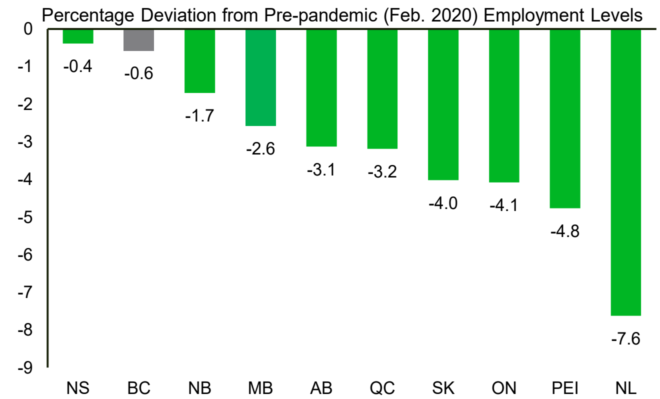
Source: TD Economics. Forecast as of March 2021.

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

British Columbia

After steadily turning in above-average growth relative to the nation since 2014, the B.C. economy has further cemented its trend of outperformance so far during the pandemic. Restaurants, personal services, and retail stores have remained open throughout the second wave of the virus. As a result, B.C. was one of the few provinces to avert job losses during the winter months. As it stands, B.C.'s employment is 0.6% below its pre-pandemic levels (Chart 1), compared to -3.1% in Canada.

Chart 1: B.C. Ahead in Its Labour Market Recovery

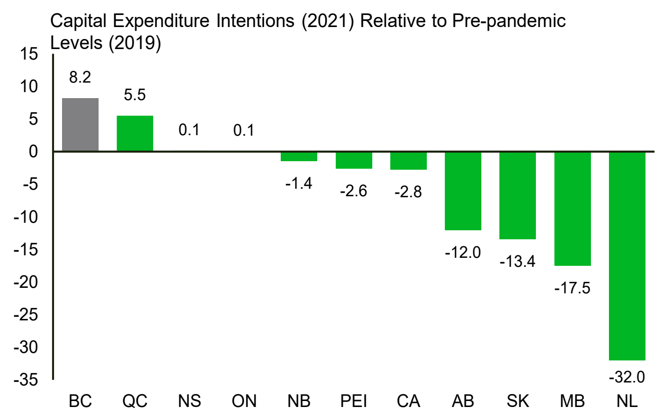


Source: Statistics Canada, TD Economics. Last observation: February 2021.

Reflecting relatively buoyant job markets, consumers have been leading the recovery. B.C. recorded the largest increase in retail sales last year, in contrast to declines recorded across other large provinces. This relative strength is expected to have continued into the winter months, as suggested by high-frequency TD Spend data. A recovery in international tourism activity likely remains a story for 2022. However, an expected rebound in interprovincial tourism should provide support to the hospitality industries in the coming months as domestic vaccine administration ramps up.

Meanwhile, B.C.'s forestry sector continues to benefit from a booming North American lumber market. Unrelenting demand for homebuilding and renovation has kept prices near record levels. The province's manufacturing sales and exports have benefitted significantly from this strength. Even though we doubt lumber prices will hold at the current unsustainable levels, the sector should remain an area of growth this year.

Chart 2: B.C.'s Capital Expenditures Still Strong



Source: Statistics Canada, TD Economics.

2021 capital spending intentions point to another strong year for investment (+5.7%). If realized, this would leave the province's capital expenditures 8.2% above its pre-pandemic levels (Chart 2). Breaking down this strength into its industrial components suggests that public sector is playing a massive role, led by outlays in transportation, public administration, healthcare, and education industries. In the private sector, large scale investment projects such as LNG Canada should provide further support.

B.C.'s housing markets were mixed in 2020. The existing home sales market fired on all cylinders, as homebuilding activity eased. The latter segment is expected to exert a further modest drag on activity this year. That said, we have upgraded our home sales and price forecasts further for 2021, as a strong first half of the year gives way to a moderation later this year.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-5.0	6.3	4.2
Nominal GDP	-2.6	10.8	6.6
Employment	-6.5	7.0	2.5
Unemployment Rate (%)	9.0	6.1	5.0
Housing Starts (000's)	38.0	36.9	35.0
Existing Home Prices	10.8	14.0	-3.4
Home Sales	21.5	62.1	-17.8

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

Alberta

Alberta is starting 2021 on a better-than-expected note, in tandem with a swift rebound in oil prices (Chart 1). OPEC+ is forecast to maintain production restraint in the near term. Despite a recent retraction in prices, tightness in oil markets is expected to linger into the summer as seasonal demand rebounds alongside a pick-up in vaccinations. This has prompted us to upgrade our WTI price forecast to just over US$60 in 2021, before prices downshift slightly to the US$55-60 range by late 2021 as OPEC+ begins to slowly bring back offline production.

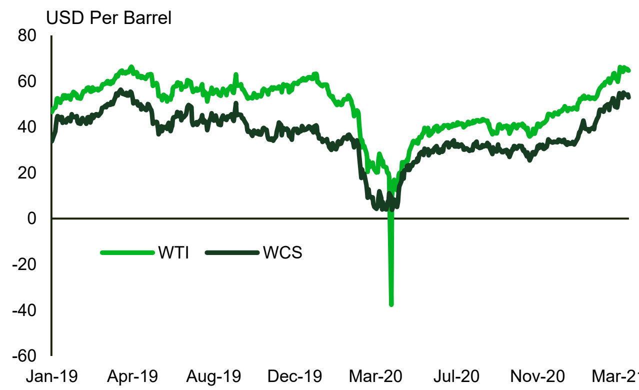
With energy demand and production rebounding, exports should be a meaningful contributor to Alberta's growth this year. The expectation of new transportation capacity in upcoming years should keep the heavy oil discount within the comparatively modest US$10-$15 range. Meanwhile, AECO natural gas prices have been on a decent trajectory, despite the pandemic. The fly in the ointment for the sector is capital investment. Indeed, survey intentions revealed a tick up to C$17 billion for the mining/oil and gas industry this year – a far cry from the C$25 billion seen prior to the pandemic and the C$61 billion prior to the 2014-15 oil price shock (Chart 2).

Elsewhere, housing markets have emerged as a bright spot – with residential investment anticipated to contribute positively to growth. Aided by supportive affordability and fundamentals, growth in Alberta's existing home sales is on track to outperform Canada's this year.

Alberta's unemployment rate remains the second highest in the country (9.9%), but progress is being made. The reopening of the economy following a short-lived shutdown set the stage for two consecutive months of job gains. As it stands, employment in Alberta is 3.1% below its pre-pandemic levels. While the job recovery should continue in the months ahead, we expect gains to lag the nation as a whole as employers remain relatively cautious.

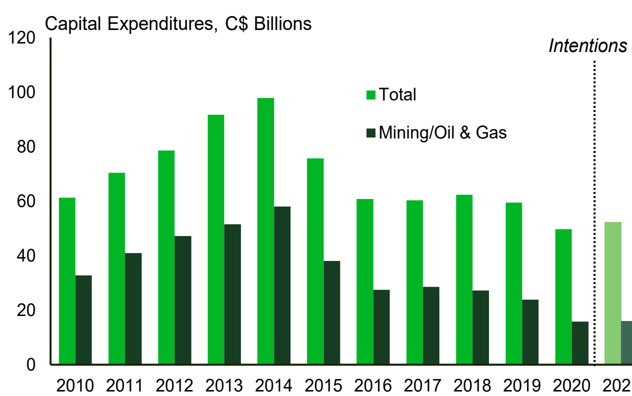
Alberta was the first province to table a budget for the 2021-22 fiscal year. Its deficit for the year is expected to drop to a still sizeable to $18.2 billion (5.4% of GDP). The budget's cautious assumption for WTI (US$46) for the current fiscal year leaves room for upside surprises on the revenue side of the ledger. The government did not outline plans to balance its budget in the medium-term, but emphasized several fiscal anchors, including a 30% net debt to GDP ratio and aligning per capita spending levels with other large provinces.

Chart 1: Oil Prices Have Rebounded Swiftly from All-time Lows



Source: Bloomberg, TD Economics. Last Observation: March 17, 2021.

Chart 2: Modest Uptick Leaves Alberta's Capital Expenditures Well below Pre-pandemic Levels



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-7.0	5.9	4.1
Nominal GDP	-10.7	14.9	6.0
Employment	-6.5	5.3	3.0
Unemployment Rate (%)	11.6	9.1	7.7
Housing Starts (000's)	24.2	28.5	28.2
Existing Home Prices	1.2	9.2	0.8
Home Sales	3.4	55.4	-13.4

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

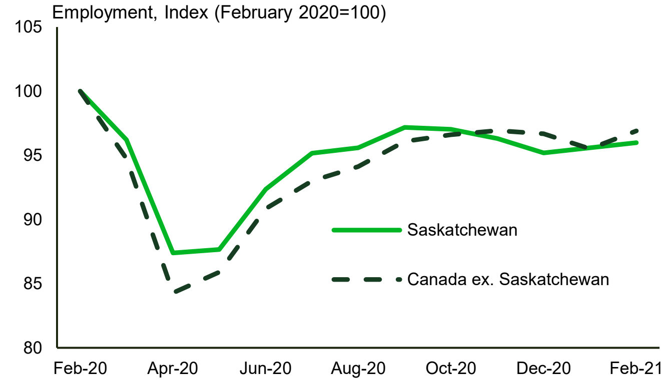
Saskatchewan

Saskatchewan's economy is starting 2021 on a weaker-than-expected footing despite, being on a relatively shortlist of provinces that avoided re-imposing restrictions during the second wave of COVID-19 infections. The restaurant and retail industries managed to record a comparatively mild decline in sales throughout the pandemic. Still, this positive development didn't prevent substantial net job losses in the final quarter of 2020 (Chart 1). Even with two consecutive months of job growth in the new year, employment remains 4% below pre-pandemic levels – underperforming Canada (-3.1%). A comparatively low unemployment rate for Saskatchewan (7.3%) masks subdued labour force trends. Additionally, relative to year-ago levels, hours worked are now the weakest in the country.

Looking ahead, Saskatchewan may not benefit from the expected bounce back in tourism to the same extent as some other provinces given the sector's relatively low share of provincial GDP. The impetus from pent-up demand is also expected to be less pronounced in Saskatchewan, considering its relative lack of restrictions during the past few months. Instead, the commodity price run up this year should be a source of optimism. Indeed, the recent rise in WTI prices bodes well for oil production and exports. Elsewhere, prospects for the agriculture industry remain promising. Prices, crop cash receipts, and agri-food exports have been trending well above year-ago levels. Potash production is already starting the year on a bright spot, with prices expected to follow. Together, these forces should support a bounce back in employment and incomes in the months ahead.

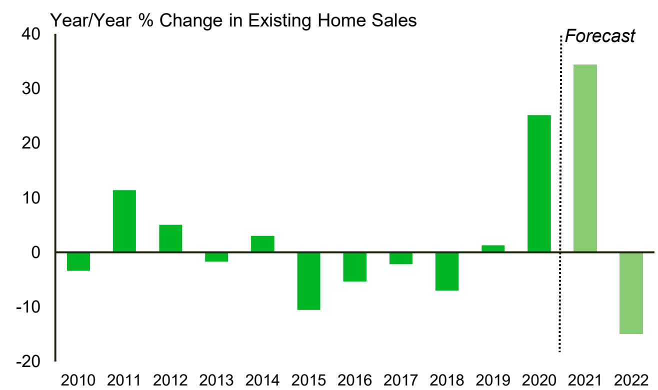
Following a significant slump in 2020 (-16.3%), capital spending should act as a modest tailwind in 2021 (+3.4%). Oil and gas investment is expected to remain well below pre-pandemic levels. However, Saskatchewan's government had previously announced a sizeable capital spending plan to be spread out over 2020 and 2021 in response to the pandemic-induced downturn. Meanwhile, another strong year appears to be in the cards for residential investment. Within the resale market, Saskatchewan clocked in the strongest increase in Canada in home sales and starts last year. Aided by relatively favorable affordability, this strength should continue in the near term (Chart 2) before activity begins to return back to a more sustainable level by the second half of the year.

Chart 1: Saskatchewan's Labour Markets Subdued During the Second Wave



Source: Statistics Canada, TD Economics.

Chart 2: Saskatchewan's Existing Home Sales Running Strong



Source: CREA, TD Economics. Forecast by TD Economics as of March 2021.

Saskatchewan Economic Forecasts [Annual average % change, unless otherwise noted]			
	2020	2021	2022
Real GDP	-5.4	5.8	3.9
Nominal GDP	-7.9	14.8	5.8
Employment	-4.6	3.4	2.6
Unemployment Rate (%)	8.4	6.3	5.8
Housing Starts (000's)	3.1	4.1	4.0
Existing Home Prices	1.9	6.0	0.4
Home Sales	25.1	34.4	-15.0

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

Manitoba

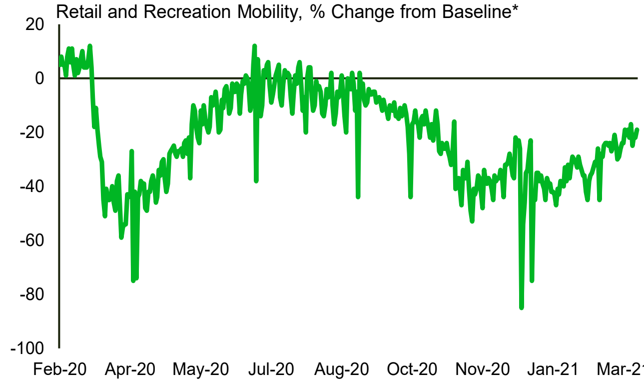
Tough restrictions in the face of the second wave of infections late last year took a big bite out of Manitoba's growth performance. Indeed, employment plunged by 4% over the November/December period. However, with new COVID-19 cases since on a sharp downtrend, the provincial government opted to ease restrictions in January, February and March. Previously shuttered businesses are generally now allowed to operate at 25-50% capacity. The economy has responded, as in January and February, the province clawed back 80% of jobs lost during the last few months of 2020, and mobility trends improved to their best level since late last year through early March (Chart 1).

Peering past the very near term, Manitoba's industrial structure should, on balance, lend itself to a relatively favourable growth environment for the remainder of the year. We expect Manitoba's large agricultural sector to benefit from elevated crop prices and rising demand. At the same time, robust government spending is expected to prop up Manitoba's outsized public sector. And, while tourism activity is likely to recover at a very gradual pace, it comprises a small share of Manitoba's economy.

Manitoba's manufacturing sector has outperformed, climbing past its pre-pandemic level as of last July on the back of robust gains in food and wood product manufacturing. Meanwhile, it took until January of this year for factory output to return to pre-pandemic levels in the rest of the country. Another strong performance is likely in the cards for 2021, as activity benefits from improved growth in the rest of Canada (interprovincial trade is particularly important for Manitoba), and a robust U.S. recovery, juiced by hefty doses of fiscal stimulus (Chart 2). Notably, Roquette's massive new pea-processing plant expects to fully ramp up production by the beginning of 2022, providing another boost to food manufacturing in the province.

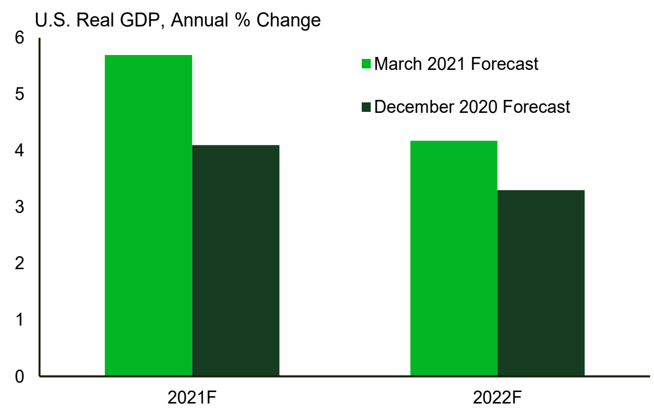
The $8.7 billion Keeyask hydroelectric project is slated for substantial completion this year. This should further weigh on non-residential spending, after utilities investment plunged 20% last year. Yet, public and private capital spending intentions point to flat non-residential investment in 2021, propped up by an uptick in private sector spending. Similarly, housing starts are expected to hold the line this year, supported by past gains in home sales and low interest rates.

Chart 1: Re-openings Leading to Improved Conditions in Manitoba



*7-day moving average. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.
Source: Google Mobility Reports,TD Economics. Last observation: March 12, 2021.

Chart 2: Stronger U.S. Growth to Boost Manitoba's Economy



Source: TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-3.9	4.9	2.8
Nominal GDP	-1.9	8.6	4.0
Employment	-3.7	3.6	2.1
Unemployment Rate (%)	8.1	6.3	5.4
Housing Starts (000's)	7.3	7.3	6.0
Existing Home Prices	4.1	8.7	0.4
Home Sales	14.3	37.1	-16.9

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

Ontario

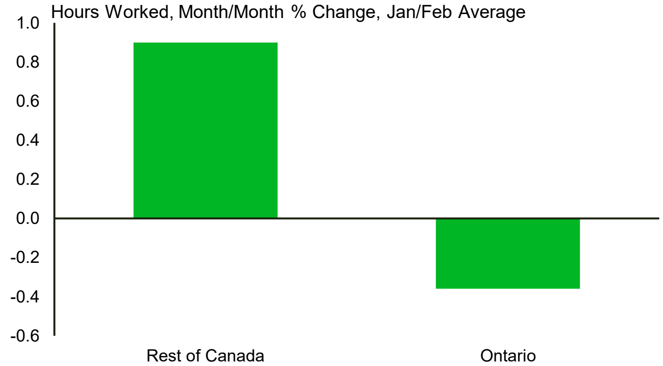
Benefitting from considerable momentum, Ontario's economy likely recorded solid growth in the final quarter of last year. Indeed, employment jumped about 3.0%, nearly 1 ppt higher than the rest of Canada, while hours worked grew even faster. These gains were impressively recorded despite tightened restrictions in place for nearly the entire quarter. This speaks to improved resilience of the economy to the pandemic, and more targeted nature of the restrictions compared to the first wave.

However, growth may have geared down in first quarter, as restrictions on non-essential businesses in place in Toronto and Peel were expanded to the entire province in late December. Ontario shed 154k positions in January, while hours worked fell 0.4% m/m. And, while mid-month re-openings helped power job growth in February, hours worked declined again (Chart 1). Elsewhere, auto production at several plants was forced to temporarily shutdown at different times in the first quarter due to shortages of semiconductors used in the production process.

The good news is that, barring a severe third wave of the pandemic, growth will likely to pick up after the first quarter. Notably, the entire province is now operating with fewer restrictions, with Toronto, Peel and North Bay shifting into the slightly less-restrictive "grey zone" category on March 8th. In addition, growth should benefit from the release of pent-up demand, as households deploy some of their considerable savings as restrictions are eased. What's more, near-term momentum continues in housing markets, evidenced by the towering 17.6% m/m gain in home sales during February. We also expect much stronger U.S. growth over the next few years, and government spending projections for this fiscal year have recently been revised upwards.

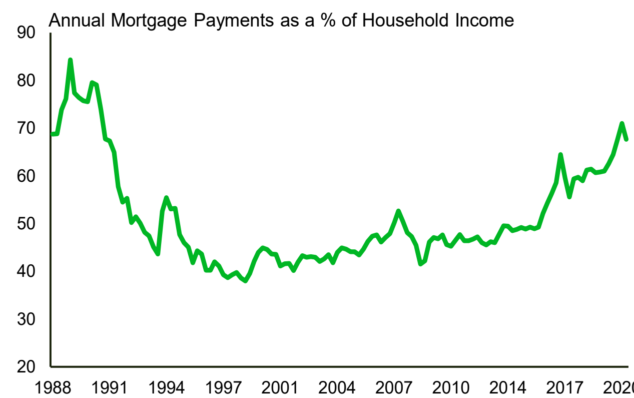
GM's $1 billion investment to build electric vehicle capacity at its Ingersoll plant should boost non-residential expenditures this year. More broadly, capital spending intentions point to rising non-residential investment. Residential spending should also increase, in annual average terms, bolstered by strong housing construction and record home sales. On the latter front, the lack of available inventory for purchase (at current sales rates) is particularly acute in Ontario, and affordability is the worst its been since the 1990s (Chart 2). As such, we see a steeper cooling from record sales levels taking place in Ontario in the second half.

Chart 1: Job Market Softness Points to Weaker Start to the Year in Ontario



*Seasonally Adjusted.
Source: Statistics Canada, TD Economics.

Chart 2: Housing Affordability Is the Worst Its Been since Early-90s in Ontario



Source: CREA, CMHC, Statistics Canada, TD Economics. Last observation: Q4-2020.

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-5.6	6.2	4.2
Nominal GDP	-4.2	9.6	6.5
Employment	-4.7	4.9	3.2
Unemployment Rate (%)	9.6	7.6	5.9
Housing Starts (000's)	81.2	82.8	82.3
Existing Home Prices	15.2	23.0	-4.1
Home Sales	8.6	34.2	-20.2

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

Québec

With second-wave restrictions put in place earlier in Quebec than other provinces, growth likely lagged the rest of the country in the final quarter of last year. Still, perspective is warranted, as the economy likely advanced at a firm 5.0% annualized pace. Moreover, Quebec's economy appears on track to outperform that of Ontario in the first quarter of 2021, despite both provinces having implemented lockdowns of roughly the same severity late last year. Indeed, growth in jobs and hours worked was stronger in Quebec than Ontario in the first two months of 2021, partly reflecting the fact that non-essential businesses were reopened (with capacity limits) earlier in the first quarter in Quebec compared to Ontario.

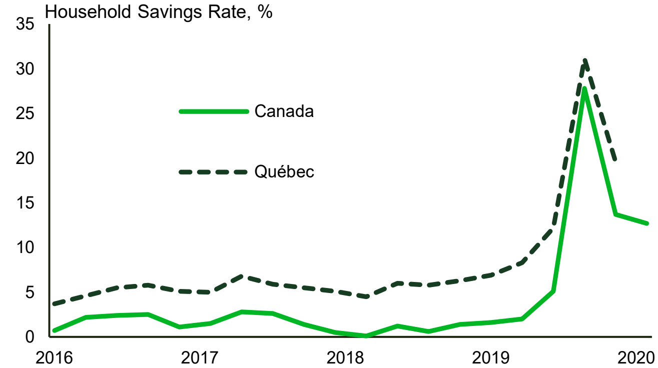
Quebec households have not shied away from spending, despite contending with a relatively severe outbreak of the pandemic since its onset. Indeed, retail sales were the furthest above pre-pandemic levels of any province to cap off last year, and retail GDP was up 9% year-on-year in November. It bears noting that household savings rates in Quebec are even higher than Canada's (Chart 1). And, continued vaccine rollouts (and the attendant easing in restrictions) should allow Quebec's households to deploy these considerable savings, powering robust consumption growth through the remainder of the year.

Housing supply/demand balances are among the tightest in the country in Quebec (Chart 2). This should sustain relatively strong home price growth for much of the year, despite rapidly deteriorating affordability conditions in the province.

As of January, Quebec's outsized manufacturing sector saw sales climb past pre-pandemic levels. While we foresee a solid year for Quebec's manufacturing sector, consistent with robust growth in the U.S., aerospace manufacturing is still likely to lag the overall recovery given lingering challenges in the air travel industry.

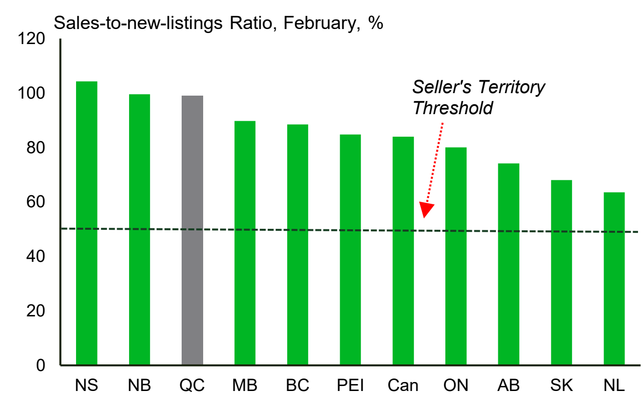
Another subdued year is probably also in the cards for Quebec's large tourism sector. However, the provincial government has stepped up with considerable support for the industry. Tourism isn't the only part of Quebec's economy that has benefitted, as the government has spent the most of any province (as a share of GDP) in combatting the pandemic. Capital spending intentions point to much of the same this year, with public sector investment slated to jump 14%, the second largest increase in the country.

Chart 1: Households in Quebec Have Significant Savings Waiting to Be Unleashed



Source: Statistics Canada, Institut de la Statistique du Québec, TD Economics. Last observations for Canada and Quebec are 2020Q4 and 2020Q3, respectively.

Chart 2: Housing Markets Are Ultra-tight in Quebec



Source: CREA, TD Economics.

Québec Economic Forecasts [Annual average % change, unless otherwise noted]	2020	2021	2022
Real GDP	-5.1	6.1	3.4
Nominal GDP	-3.7	9.1	5.7
Employment	-4.8	4.7	2.2
Unemployment Rate (%)	8.9	6.2	5.6
Housing Starts (000's)	54.7	71.6	49.0
Existing Home Prices	14.7	17.3	-3.7
Home Sales	16.9	15.5	-22.3

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

New Brunswick

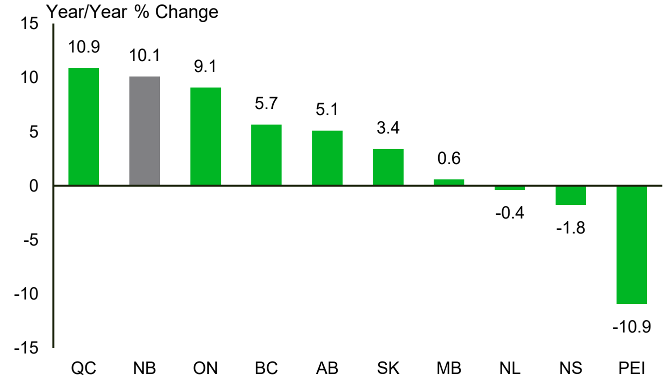
New Brunswick faced a milder infection curve during the first and second waves. Restrictions during the winter months were more geographically-limited and short-lived relative to Central Canada and Manitoba. The province recorded job losses in February, but employment relative to pre-COVID levels in New Brunswick remains on a comparatively better footing than in most other provinces. Likewise, the milder infection curve and lack of restrictions has been reflected in relatively robust consumer spending trends. Retail trade data points to relative outperformance on this front. Restaurant spending tumbled (-18.6%) in 2020, but the hit was still shallower than in most other provinces. Looking ahead, a potential resumption of the Atlantic Bubble bodes well for interprovincial tourism.

We see particular upside to both exports and investment in 2021 and into 2022. Sales of petroleum products should benefit from an expected rebound in gasoline demand in the upcoming months. At the same time, New Brunswick's forestry products industries are benefitting from booming North American lumber markets. With the U.S. on a trajectory to outperform most major economies in 2021, New Brunswick's outsized exposure to its markets bodes well for shipments abroad. Capital spending is also emerging as another bright spot (Chart 1). Survey intentions reveal a 10% bounce back in 2021 – the second highest among the provinces. This will help the province recoup the bulk of the decline seen last year.

New Brunswick's housing markets have been surging, unabated, for the past two years. We expect continued growth in existing home sales and prices before activity reverts to more sustainable levels by the second half of the year.

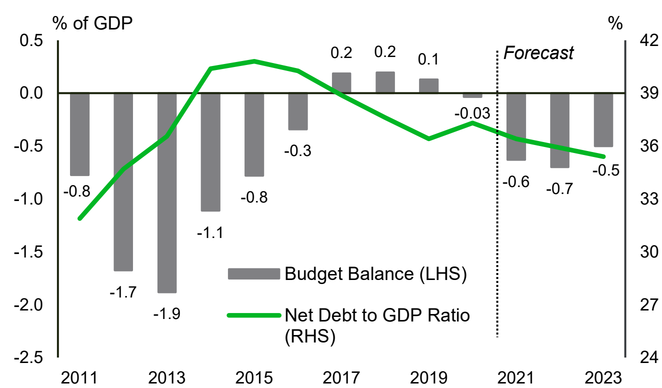
New Brunswick's public finances stand out (Chart 2). The revised deficit of only $13 million (0.03% of GDP) for fiscal 2020-21 was the lowest in the country. This is a remarkable feat considering the heavy toll the pandemic has had on public finances elsewhere New Brunswick's recently-released budget planned relatively modest deficits averaging 0.6% in the upcoming three years. Still, these were based on cautious planning and economic assumptions, leaving room for upside surprises in revenues. Looking ahead, following through on the government's intended immigration targets will be a key ingredient to to sustaining both solid economic growth and fiscal position over the medium term.

Chart 1: Though Not Fully Recovered, Capital Expenditures Expected to Rebound Strongly in New Brunswick This Year



Source: Statistics Canada, TD Economics.

Chart 2: New Brunswick's Finances Less Impacted by the Pandemic



Source: NB Finance and Treasury Board, TD Economics.

New Brunswick Economic Forecasts [Annual average % change, unless otherwise noted]	2020	2021	2022
Real GDP	-3.0	4.8	2.4
Nominal GDP	-2.1	9.5	4.4
Employment	-2.6	3.9	1.1
Unemployment Rate (%)	10.1	8.3	8.0
Housing Starts (000's)	3.6	3.7	2.8
Existing Home Prices	10.0	17.3	-2.9
Home Sales	13.5	26.1	-17.5

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

Nova Scotia

Like the rest of Canada, the second wave of the pandemic forced Nova Scotia to tighten restrictions on businesses in November. However, the economy displayed resilience through that turbulent period, with measures of employment dipping only slightly in December, as hiring outside of the impacted industries managed to edge higher. Zooming out, Nova Scotia has staged one of the more impressive recoveries from the depths of the first wave, as employment was closer to its pre-pandemic level than any other province in February.

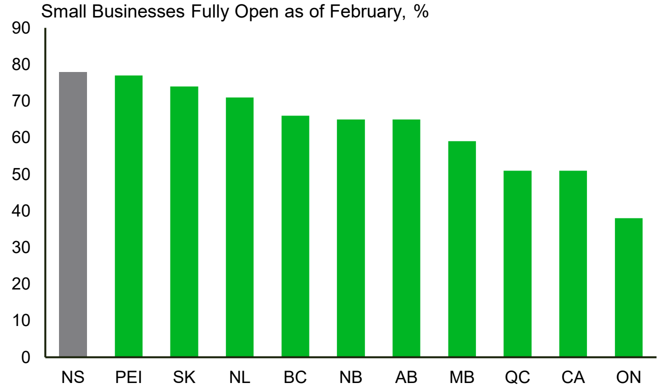
As new COVID-19 cases dwindled, these measures were eased in January and February, such that Nova Scotia was operating in one of the most open environments for businesses in Canada during February (Chart 1). This relatively free operating environment should set the stage for stronger growth in the coming months. Indeed, retail spending likely has room to run, as retailers can now operate at 75% capacity, and population growth is expected to pick up significantly in the second half.

Manufacturing shipments were some 12% above pre-pandemic levels in January – one of the best performances in the country. This was impressively achieved despite a closure of a major pulp mill early last year and production shutdowns at several facilities due to COVID-19. We expect these gains to continue, as manufacturers benefit from strong U.S. growth (Chart 2), continued demand from the important Chinese market, and shipbuilding and maintenance work at the Irving shipyard.

An infusion of public sector funds has provided much-needed support to Nova Scotia during the pandemic. Last year, government capital spending surged by nearly 40%, boosted by projects such as the QEII Health Sciences redevelopment and the Highway 104 twinning project. While capital spending intentions point to some softening in public investment this year, program spending this fiscal year is likely to be over $700 million higher than projected in the budget, according to the latest fiscal update.

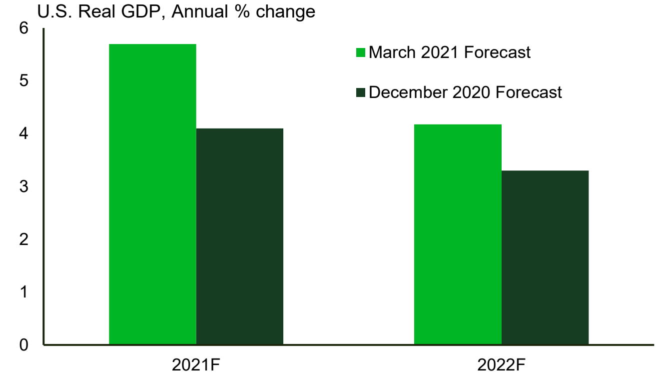
Nova Scotia's vaccine rollout has lagged, reflecting the government's choice to hold back a second dose. This policy has now changed, and the province expects to offer 1st doses of the vaccine by the end of June, as opposed to its initial goal of September.

Chart 1: Businesses Backdrop Is Relatively Unencumbered in Nova Scotia



Source: CFIB, TD Economics.

Chart 2: Robust U.S. Economic Growth to Buoy Nova Scotia's Recovery



Source: TD Economics.

Nova Scotia Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-3.9	5.5	2.4
Nominal GDP	-2.9	10.0	4.5
Employment	-4.7	6.1	0.8
Unemployment Rate (%)	9.8	8.0	8.0
Housing Starts (000's)	4.9	5.3	4.5
Existing Home Prices	13.0	19.5	-3.8
Home Sales	13.6	27.9	-18.0

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

Prince Edward Island

PEI's "circuit breaker" restrictions introduced last December do not appear to have knocked the recovery too far off track. Retail trade plunged during the month, but employment dipped merely 0.9%. This capped a poor, but comparatively better year for jobs, where employment fell by 3.2%, versus a 5.1% drop for Canada overall.

PEI began to lift these restrictions in late December and continued to do so in January. By some standards, businesses in PEI are operating in one of the least restrictive environments in Canada (Chart 1). It bears noting that another two-week circuit breaker was implemented in February, although was lifted in early March.

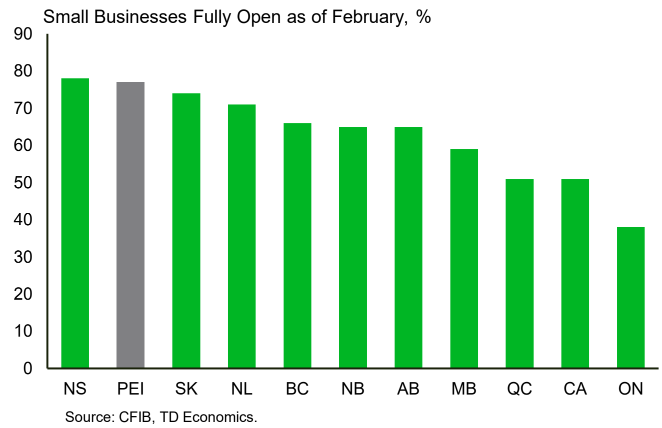
We expect PEI to enjoy firm growth through the remainder of the year. For one, production in the province's relatively large agricultural sector will likely increase, amid a healthy price environment. In addition, consumption should benefit from a presumed pick-up in population growth in the second half. Elsewhere, construction will be lifted by work done in preparation for the 2023 Canada Games. while the government's latest budget revealed plans to boost program spending by 4% this fiscal year.

Notably, PEI's fiscal position has held up well during the pandemic. The province expects its deficit to fall from 1.7% of GDP last fiscal year to 0.3% by FY 2023/24. Meanwhile, net debt-to-GDP is expected at 35.4% this fiscal year – below levels seen as recently as 2015/16. Next year, households and businesses alike will be benefit from tax relief introduced in the budget.

Our growth projections are, of course, contingent on the path of the virus. The fact that PEI is currently vaccinating at a rate well above the national pace will help (Chart 2). Despite having an older population than most other provinces, PEI expects to have offered every eligible Islander a single dose of the vaccine by the end of June.

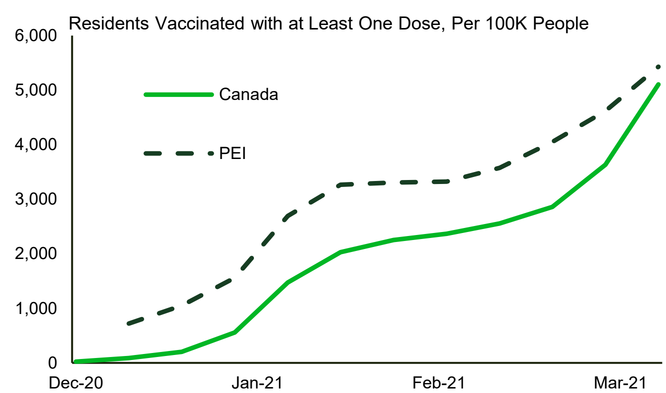
One area of PEI's economy that is likely set for a slow recovery is tourism. As most tourist visits to PEI are from other parts of Canada, the vaccine rollout will likely need to be more advanced, and interprovincial travel restrictions scaled back, before tourism turns in a meaningful pick up on the Island. A return of the Atlantic Bubble would be a welcome development on this front.

Chart 1: Businesses in PEI Are Operating in a Very Open Environment



Source: CFIB, TD Economics.

Chart 2: PEI Vaccinating Its Population at a Rapid Rate



Source: Government of Canada, TD Economics.

P.E.I. Economic Forecasts [Annual average % change, unless otherwise noted]			
	2020	2021	2022
Real GDP	-3.1	4.4	2.6
Nominal GDP	-2.4	8.8	4.7
Employment	-3.2	3.9	1.9
Unemployment Rate (%)	10.7	8.3	8.3
Housing Starts (000's)	1.0	1.0	1.0
Existing Home Prices	18.0	13.1	-4.1
Home Sales	9.4	17.1	-19.1

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

Newfoundland & Labrador

Newfoundland & Labrador's economy is facing a longer road back to recovery than other provinces. In 2020, a milder infection curve meant that its services sector had held up relatively well. Like most of its Atlantic Canada neighbors, retail trade ended the year in positive territory, and restaurant spending faced a lesser decline than seen elsewhere in Canada. After staging a strong recovery in the summer and fall months, employment took a turn for the worse in December. Rubbing salt into the wound, a spike in infections in the St. John's area sent the province into lockdown (Alert Level 5) in February. As a result, employment took a massive hit in February (-6.8%, Chart 1), and is now well below pre-pandemic levels (-7.6%). Most of the province's regions were cently placed in the less stringent Alert Level 3. In-person dining, retail, and personal services can now reopen, setting the stage for hiring to resume in March. Still, this setback is likely to take a bite out of growth in the first quarter.

In contrast to Alberta and Saskatchewan, Newfoundland & Labrador's oil production surged in 2020. A faster-than-expected bounce back in Brent prices should be supportive for incomes in the province this year. Elsewhere, iron ore production was also on an uptrend, providing some respite to the province's exports. However, overall exports and manufacturing sales still plummetted, with operations at the province's refinery halted since the start of the pandemic.

Weakness in capital spending is expected to linger (Chart 2). The province saw the steepest decline in 2020 (-31.7%), with capital spending intentions for the current year pointing to near-flat growth (-0.4%). Part of the weakness in recent years was driven by the completion of the Muskrat Falls project. Last year's oil shock has dampened prospects for capital investment further. For instance, drilling at the Hibernia oil field was halted at the start of the pandemic. The West White Rose Extension project received support from the provincial government, but a decision to resume the project and start construction remains uncertain. Similarly, an investment decision on the large-scale Bay-Du-Nord offshore project was deferred.

Housing markets are expected to contribute positively to growth this year, in tandem with the rest of the country. However, weak population growth will continue to weigh on medium-term prospects, with a downshift expected towards the second half of the year. The Province's post-election budget will also face the challenging task of addressing Newfoundland and Labrador's bloated debt burden.

Chart 1: Newfoundland & Labrador's Labor Markets Dealt a Blow from Second Wave and Recent Lockdown

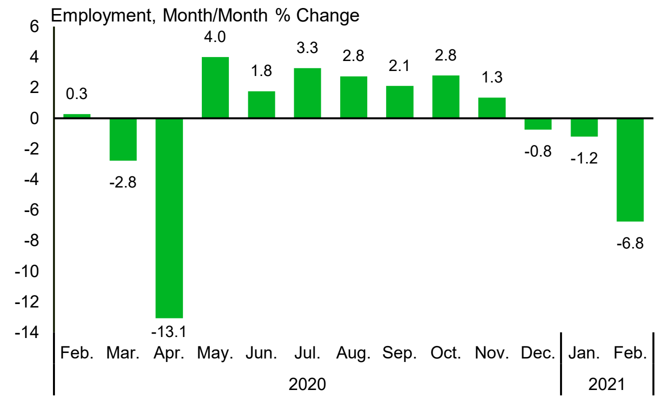
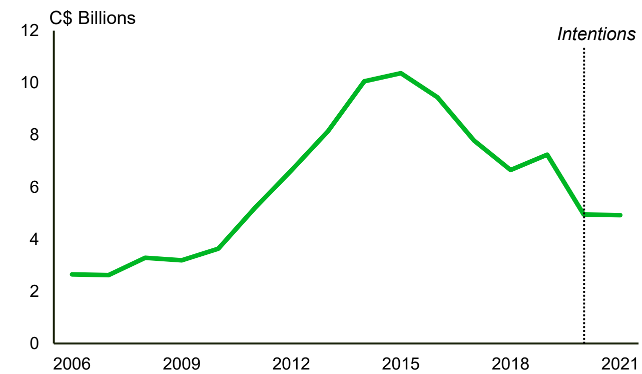


Chart 2: Capital Spending a Headwind to Newfoundland & Labrador's Economy in Recent Years



Source: Statistics Canada, TD Economics

NFLD & Labrador Economic Forecasts [Annual average % change, unless otherwise noted]			
	2020	2021	2022
Real GDP	-5.9	3.9	2.6
Nominal GDP	-10.6	12.2	4.4
Employment	-5.9	3.4	1.1
Unemployment Rate (%)	14.2	12.8	12.8
Housing Starts (000's)	0.8	1.3	1.1
Existing Home Prices	1.3	4.6	-4.2
Home Sales	14.6	37.9	-22.1

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

Provincial Economic Forecasts

Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**
National	**-5.4**	**6.0**	**3.9**	**-4.6**	**10.6**	**6.1**	**-5.1**	**5.1**	**2.7**	**9.6**	**7.2**	**6.1**	**219**	**242**	**214**	**12.2**	**21.2**	**-3.6**
Newfoundland & Labrador	-5.9	3.9	2.6	-10.6	12.2	4.4	-5.9	3.4	1.1	14.2	12.8	12.8	0.8	1.3	1.1	1.3	4.6	-4.2
Prince Edward Island	-3.1	4.4	2.6	-2.4	8.8	4.7	-3.2	3.9	1.9	10.7	8.3	8.3	1.0	1.0	1.0	18.0	13.1	-4.1
Nova Scotia	-3.9	5.5	2.4	-2.9	10.0	4.5	-4.7	6.1	0.8	9.8	8.0	8.0	4.9	5.3	4.5	13.0	19.5	-3.8
New Brunswick	-3.0	4.8	2.4	-2.1	9.5	4.4	-2.6	3.9	1.1	10.1	8.3	8.0	3.6	3.7	2.8	10.0	17.3	-2.9
Québec	-5.1	6.1	3.4	-3.7	9.1	5.7	-4.8	4.7	2.2	8.9	6.2	5.6	54.7	71.6	49.0	14.7	17.3	-3.7
Ontario	-5.6	6.2	4.2	-4.2	9.6	6.5	-4.7	4.9	3.2	9.6	7.6	5.9	81.2	82.8	82.3	15.2	23.0	-4.1
Manitoba	-3.9	4.9	2.8	-1.9	8.6	4.0	-3.7	3.6	2.1	8.1	6.3	5.4	7.3	7.3	6.0	4.1	8.7	0.4
Saskatchewan	-5.4	5.8	3.9	-7.9	14.8	5.8	-4.6	3.4	2.6	8.4	6.3	5.8	3.1	4.1	4.0	1.9	6.0	0.4
Alberta	-7.0	5.9	4.1	-10.7	14.9	6.0	-6.5	5.3	3.0	11.6	9.1	7.7	24.2	28.5	28.2	1.2	9.2	0.8
British Columbia	-5.0	6.3	4.2	-2.6	10.8	6.6	-6.5	7.0	2.5	9.0	6.1	5.0	38.0	36.9	35.0	10.8	14.0	-3.4

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at March 2021.

Disclaimer