Provincial Economic Forecast

Varying Regional Impacts From Russia/Ukraine Conflict

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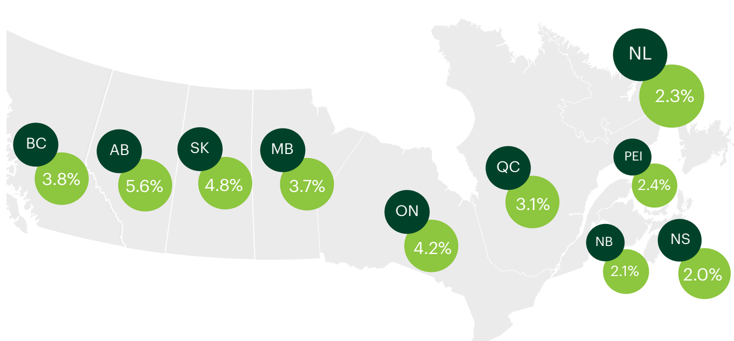
- While we've revised down 2022 growth prospects in most regions significantly from December, we still anticipate another above-trend year for gains in real GDP and employment across provinces, supported by a continued recovery in high-touch service industries. In particular, real GDP advances are projected to run from 2% in Nova Scotia to 5.6% in Alberta. Still, the Omicron variant weighed on activity to begin the year, particularly in Atlantic Canada, Ontario, and Quebec, where restrictions were tightened the most. And, the multi-decade high inflation that we've seen is set to escalate further in the coming months due to the knock-on effects of the evolving Russia/Ukraine conflict.
- The invasion of Ukraine is exacerbating the pinch on consumers and businesses largely through its impact on energy and food prices. However, the effects may be the worst in the Atlantic provinces, where food and energy account for an outsized share of the spending pie. That said, households in Ontario and Quebec will also be squeezed. In contrast, commodity-producing provinces are set to reap net benefits from the higher prices on world markets.
- Moving forward, we're assuming that crude oil prices remain extremely elevated into the spring, before easing gradually later this year on some demand destruction globally as well as a reduced fear premium. WTI prices are still expected to remain well above their levels in place ahead of the invasion. The same holds true for crop prices, although this assumes a more "normal" year for weather after droughts hammered production last year.
- So far in this budget season, we've seen fiscal blueprints from B.C., Alberta, and PEI. Much-improved FY 2021/22 balances, robust capital investment, slower future program spending and a lack of major new revenue initiatives have all been hallmarks. Alberta rolled out cost-of-living relief after the release of its budget, and the federal government and other provinces may do the same in their upcoming budgets.
- Home sales across most regions were much stronger-than-anticipated in the first quarter, helping fuel a continuation of robust home price growth. However, we still expect sales to decline and price growth to slow broadly this year as the BoC follows through with 150 basis points in cumulative interest rate hikes.

Provincial Real GDP Growth Forecast (2022)



Source: TD Economics. Forecast as of March 2022.

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

British Columbia

The severe flooding that took place late last year put a considerable dent into what was otherwise a robust growth performance in 2021. Impacts were widespread, as wholesalers, manufacturers and retailers all suffered, agricultural output was hit, and construction on the Trans Mountain Pipeline was paused.

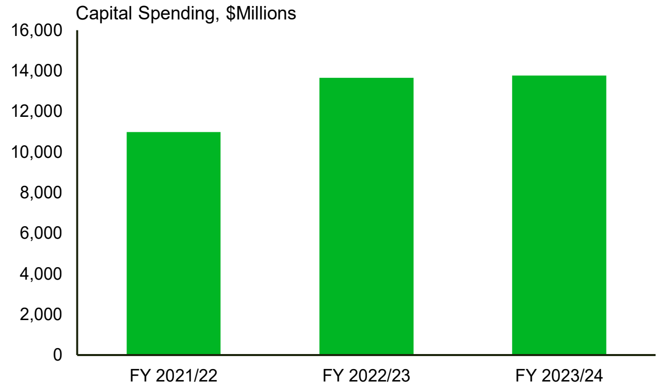
While the floods did some damage in 2021, BC's economy was able to weather the Omicron wave better than several other parts of the country. Employment inched higher in January (compared to a decline in the rest of Canada), as the retail sector largely avoided tighter restrictions. And this was followed up by a stronger gain in February as health measures were rolled back.

Beyond the near term, other important factors at play should support a continuation of above-trend growth in 2022. For one, the recently released provincial budget points to strong program spending in the upcoming fiscal year. This is complemented by the government's plan to ramp up capital spending (Chart 1). Construction activity will also draw support from rebuilding efforts after the devastating floods in late-2021 and the ongoing, large-scale LNG Canada and Site-C hydroelectric dam projects. In addition, elevated natural gas prices should prompt increased production. Of note, natural gas production was tracking a 5% year-to-date gain through October 2021, backed by higher prices.

The province's large tourism sector is likely to continue its recovery this year, although the process may be uneven, given the potential for future COVID-19 outbreaks. Improving tourist spending should bolster expansions in related industries. Another year of healthy population growth, underpinned by rising immigration targets, should also support domestic demand. However, interprovincial migration flows are likely to slow after the multi-decade highs reached in 2021, as remote work is reigned in.

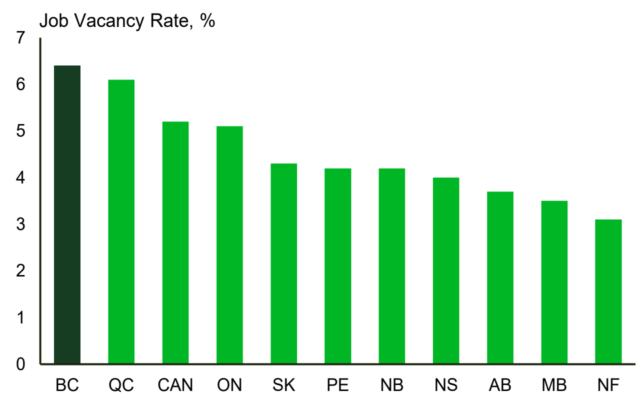
To an extent, B.C. is a victim of its own success in that a strong recovery from the pandemic has fueled intense labour shortages (Chart 2). This challenge is likely to keep the province from achieving even stronger growth this year. Other headwinds include the hit to household incomes from higher food and energy prices, and a lower level of housing starts in both Canada and the U.S., which should hinder demand for wood products. However, the recent reduction of tariffs for most softwood lumber should provide some offset once they come into force later in the year.

Chart 1: B.C. Government Plans on Ramping up Capital Spending in the Upcoming Fiscal Year



Source: B.C. Government, TD Economics.

Chart 2: B.C.'s Job Markets Are among the Tightest in the Country



Note: Data for December 2021. Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	4.8	3.8	2.6
Nominal GDP	13.2	7.4	5.0
Employment	6.6	3.3	1.1
Unemployment Rate (%)	6.5	4.6	4.7
Housing Starts (000's)	47.7	36.6	35.3
Existing Home Prices	19.8	16.6	0.8
Home Sales	32.8	-11.0	-6.1

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

Alberta

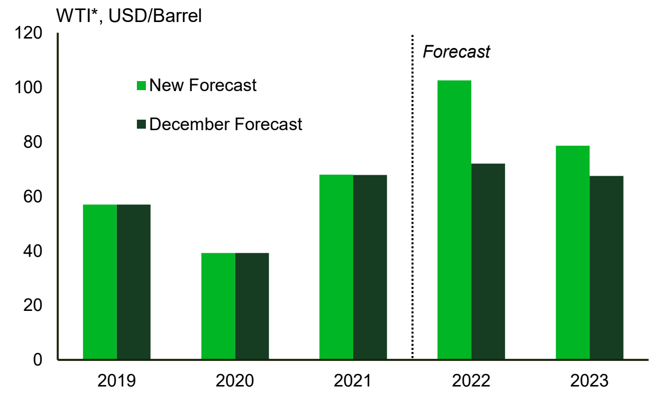
Bucking the nation-wide trend, Alberta's growth prospects have been upgraded from our latest December forecast. For one, the government imposed relatively few restrictions on the economy during the Omicron wave, leading to less of a growth drag from it. More importantly, Alberta's economy is poised to benefit from recently-soaring oil prices as well as elevated prices for natural gas. Note that in recent weeks, WCS prices pushed through $100 USD for the first time in history. While energy prices are likely to moderate from the current stratospheric levels over the second half of this year and into 2023 – as the fear premium built into prices is assumed to ease and some demand destruction takes place – they should remain well above levels previously forecast (Chart 1).

The province is unlikely to reap the same benefits relative to past eras of high oil and gas prices, as reduced investment in the industry in recent years amid the green energy transition, ongoing pipeline constraints and other operational challenges limit the level that production can be reached. Still, we are anticipating an acceleration in production this year in the order of 200k additional barrels (or about a 5% gain). Note that rig counts have expanded by nearly 50% year-on-year through the early part of March (Chart 2), although production dropped by 5% versus its year ago level in January. Natural gas production should also increase this year, and in an encouraging sign, was up by about 3.5% year-on-year to begin 2022.

Higher energy prices should weigh on household discretionary incomes. The government will be providing some offsetting support through suspension of the gas tax, which will have the impact of lowering prices at the pump, at an estimated full-year fiscal cost of $1.3 billion. They are also delivering $280 million in electricity rebates to households and small businesses. These measures will eat into the modest FY 2022/23 surplus projected by the government in its February budget.

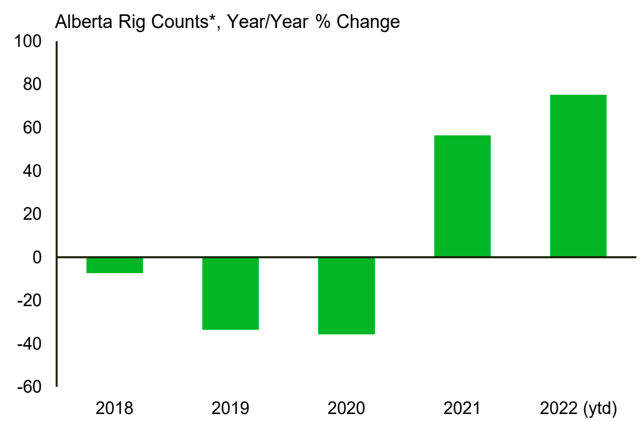
Activity in Alberta's housing market continues at a heated clip. Even after home sales advanced 50% on an annual average basis (over twice the increase as Canada overall) last year, they're up an additional 25% over the first two months of 2022. This robust demand backdrop (supported by good affordability conditions) should fuel an outperformance in home prices, particularly in the second half of the year.

Chart 1: Upgraded Oil Price Expectations Drive Upward Revision to Alberta's Growth Outlook



*Annual average. Source: EIA, TD Economics.

Chart 2: Oil Drilling Activity on the Rise in Alberta



*Annual average level. Source: Baker Hughes, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	5.3	5.6	3.9
Nominal GDP	22.1	19.3	5.0
Employment	5.2	4.8	2.1
Unemployment Rate (%)	8.6	6.2	5.5
Housing Starts (000's)	31.9	30.4	29.3
Existing Home Prices	9.1	16.1	4.8
Home Sales	53.5	23.9	-22.2

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

Saskatchewan

We've upgraded our real 2022 GDP growth forecast the most in Saskatchewan. Given its impressive diversity of commodity exports, no other province is as well positioned to benefit from the recent surge in prices. For example, both oil and natural gas production will likely see a lift from higher prices. On that front, drilling rig counts are up by 30% so far in 2022 compared to the 2021 average (Chart 1).

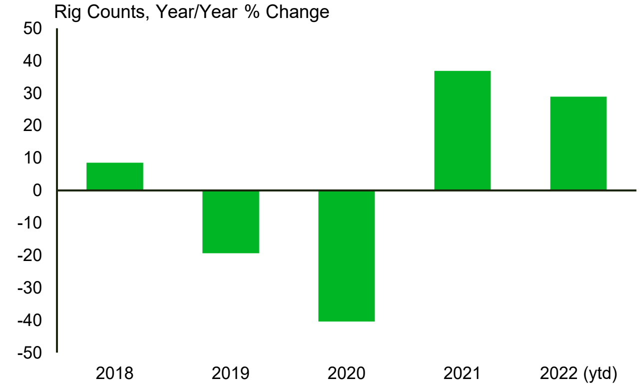
Incomes in Saskatchewan's key agricultural sector are also slated to receive a significant boost through higher prices, as the conflict has sent prices for goods such as wheat soaring. We are also assuming a more normal year for weather, which should help support growing volumes this year, after a drought-plagued 2021. The province is also a key global supplier of potash used for fertilizer, which is another good where prices have spiked due to the conflict. However, a potential CP rail strike (on which a decision is expected soon) would weigh on output through impeding shipments of these important commodities.

This higher price backdrop will also deliver substantial support to government revenues, which could then be rolled into additional spending. Note that capital spending intentions for this year are the strongest in the country (Chart 2), supported by a projected 19% increase in public sector investment. Healthy investment gains are also projected in manufacturing, utilities and mining, with the latter likely tied to the on-going construction of the Jansen potash mine.

Saskatchewan's services-producing industry benefitted from a very light touch on restrictions during the Omicron wave. Of note, employment in high-touch sectors increased by 0.8% m/m in January. Overall employment jumped in February and the province dropped all COVID-19 measures in early March, paving the way for rising activity in hard-to-distance sectors.

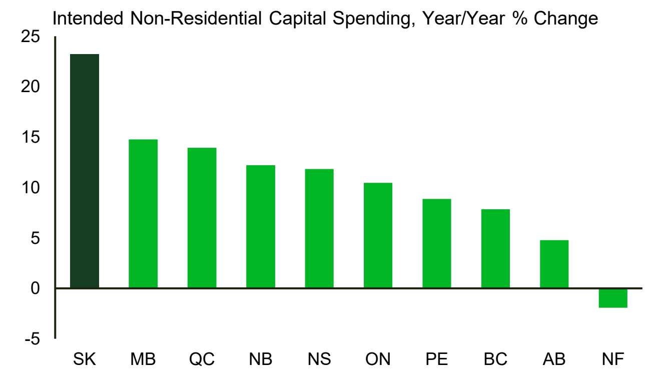
In housing markets, home sales in Saskatchewan managed to outpace Canada last year. Although sales fell in Saskatchewan to begin the year, we expect sales growth to outpace the nation for the rest of 2022, lifted by healthy economic conditions and good affordability. This should support an outperformance in price growth as well, although we anticipate this to be more pronounced in the second half of the year, as markets in the province currently aren't as tight as they are in the rest of Canada.

Chart 1: Rig Counts on the Rise in Saskatchewan, Portending Increased Production This Year



Source: Statistics Canada, TD Economics.

Chart 2: Capital Spending Intentions Suggesting That Saskatchewan Will Have the Strongest Growth in the Country This Year



Note: Data for 2022. Source: Statistics Canada, TD Economics.

Saskatchewan Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	2.9	4.8	3.4
Nominal GDP	16.3	20.5	4.3
Employment	2.6	4.4	0.8
Unemployment Rate (%)	6.5	4.8	4.9
Housing Starts (000's)	4.3	4.2	4.4
Existing Home Prices	7.2	3.9	4.1
Home Sales	24.1	-10.1	1.4

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

Manitoba

Through the Omicron wave, Manitoba's restrictions didn't tighten to the same degree as in other provinces (Chart 1). As such, it appears as though it had little impact on the province's growth rate at the turn of the year. Employment inched higher in January, supported by a sturdy performance in high-touch industries, before recording solid growth in February.

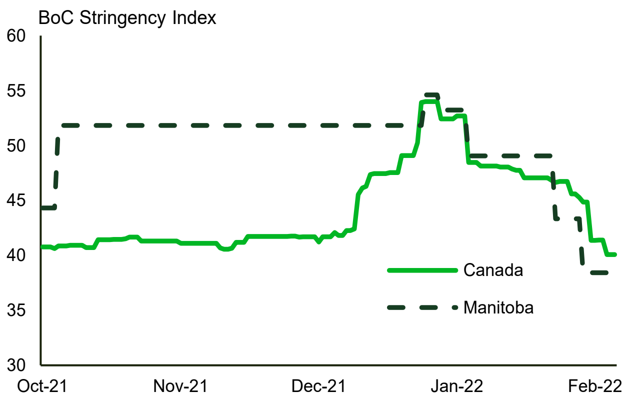
Within the province's outsized agriculture sector, we are also assuming more normal weather takes hold during the 2022 growing season, which should help crop yields after a disastrous 2021 impacted by severe droughts. This should bolster agricultural output. However, a potential CP rail strike would likely hinder-near term activity through a disruption in shipments. Meanwhile, elevated crop prices are poised to boost incomes as well as government revenues, although could feed through to higher prices for livestock. Note that the Bank of Canada's agricultural commodity price index is up 10% from the end of last year, as the Russia/Ukraine conflict has lead to spikes in prices of goods such as wheat.

Non-residential construction investment is also projected to grow strongly this year. Indeed, the February investment intentions survey pointed to a 15% gain in capital construction spending in 2022, driven by both the public and private sector. Residential construction, meanwhile, is likely to trend lower this year as housing starts pullback from a near 35-year high recorded in 2021, amid higher interest rates. In addition, the investment intentions survey is flagging flat machinery and equipment spending in 2022.

Wage growth is yet another area of concern, as inflation-adjusted wages (as measured by average hourly earnings) have fallen at the fastest rate in the country in recent months, flagging some near-term spending weakness. Like other provinces, inflation is running hot in Manitoba. However, wage growth has been weak since 2021Q3 (Chart 2). Note that Manitoba's job vacancy rate declined in December and was the 2nd lowest of any province, implying looser job markets than elsewhere in Canada. This makes sense as several headwinds restrained economic growth last year, keeping activity far away from its pre-pandemic level.

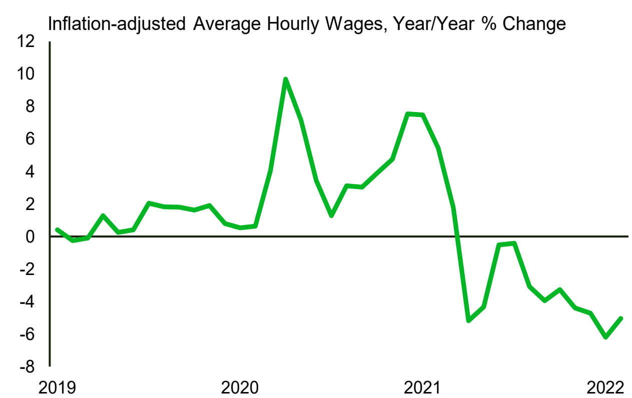
Manitoba's export outlook this year is solid, though less so compared to expectations imbedded in our December forecast. This is due to softer (but still healthy) growth prospects in the U.S. and Canada. The latter is notable given Manitoba's outsized reliance on interprovincial shipments.

Chart 1: Manitoba's Restrictions Didn't Tighten to the Same Degree as Canada's During Omicron



Source: Statistics Canada, TD Economics.

Chart 2: Inflation-adjusted Wages on the Decline in Manitoba



Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	3.5	3.7	2.9
Nominal GDP	10.2	11.0	4.4
Employment	3.5	3.2	1.0
Unemployment Rate (%)	6.4	4.7	4.6
Housing Starts (000's)	8.0	6.9	5.9
Existing Home Prices	10.1	12.7	3.5
Home Sales	17.2	-7.1	0.7

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

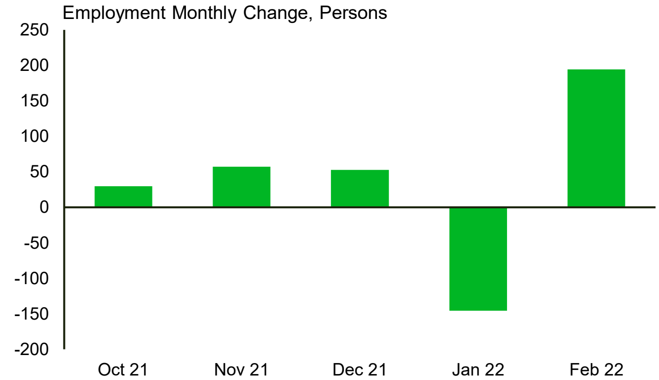
Ontario

Ontario's economy looks to have been carrying significant momentum heading into this year. Indeed, we expect that Ontario's economic growth outpaced Canada's in the fourth quarter of 2021, reflecting the release of greater pent-up demand and some easing of supply-chain constraints in the auto sector. The Omicron variant was a drag on activity to begin 2022, as restrictions led to falling employment in January. However, Ontario's economy has displayed notable resilience in February (despite the brief shutdown of the Ambassador Bridge), with employment bouncing back by 2.6% m/m during the month (Chart 1).

Beyond the very near-term, we are expecting growth to benefit from re-openings, as most COVID-19 restrictions were lifted in early March. In addition, solid job markets, high levels of household savings and a likely acceleration in wage growth should help offset some the negative impact on incomes from rising energy and food prices. Also on the supportive side is the latest capital intentions survey, which points to a healthy gain in non-residential spending in 2022. What's more, a further improvement in auto output is anticipated this year supported by rising North American sales. However, the conflict in Europe raises risks here, given that Russia and Ukraine are both suppliers of key materials used in semi-conductor production. And indeed, we've lowered our 2022/2023 forecast for Canadian auto production compared to December due to these challenges.

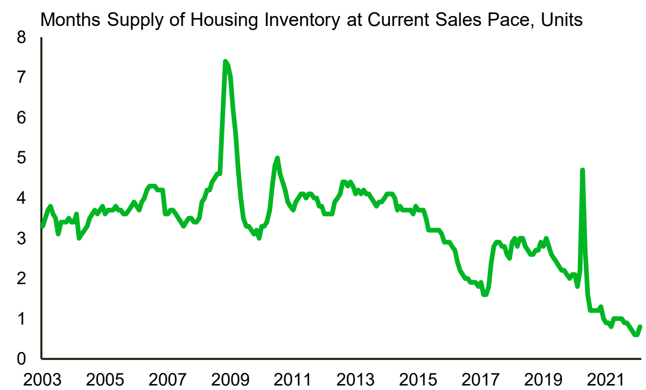
Ontario's frothy housing market posted a 6% m/m gain in average prices in January, marking the steepest gain (outside of when the province was emerging from the depths of the first wave) since 2017. Another (lesser) gain took place in February. Demand is being stoked by a multitude of factors, including increased investor activity, healthy labour markets, some favourable demographic trends, and fear of missing out behaviour. Meanwhile, supply has struggled to keep up (Chart 2). Moving forward, higher interest rates will worsen already historically poor affordability, likely causing sales to cool. This should restore better balance to markets, helping ease price growth – particularly in the second half of 2022. Housing starts hit their highest level since 1988 last year. However, any price relief from this burst of new supply will come with a lag. Note that the average time required to finish a residential construction project in Ontario has been on the rise.

Chart 1: Employment Bounces-back Forcefully after Omicron Shock



Source: Statistics Canada, TD Economics.

Chart 2: Robust Demand, Lackluster New Supply Has Tightened Housing Markets Significantly in Ontario



Source: CREA, TD Economics. Last observation: February 2022.

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	4.3	4.2	3.0
Nominal GDP	11.9	7.9	5.3
Employment	4.9	4.5	1.0
Unemployment Rate (%)	8.0	5.6	5.5
Housing Starts (000's)	101.2	84.0	84.3
Existing Home Prices	24.9	19.5	0.0
Home Sales	18.6	-8.8	-7.8

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

Québec

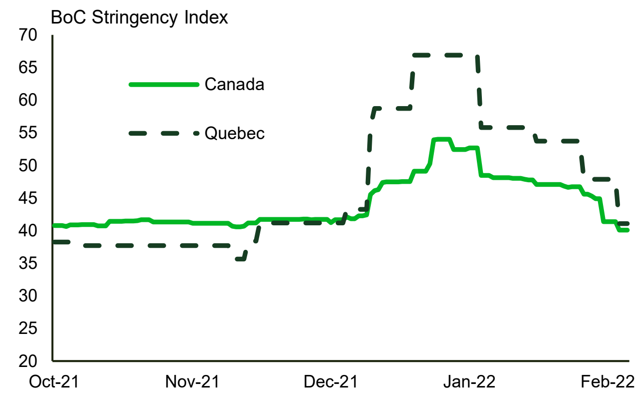
Quebec has enjoyed a speedy recovery and as of October, its real GDP was 1% above its pre-pandemic level. In contrast, the nation only just reached its pre-pandemic peak in November. Residential spending and government outlays played an important role in Quebec's recovery. In addition, manufacturers in the province source fewer materials through international imports compared to other provinces, shielding the province from input shortages to a degree.

Near-term prospects have turned mixed. Omicron delivered an important (but temporary) setback to Quebec's expansion at the turn of the year. A severe bout with the variant forced the province to enact the tightest restrictions in the country (Chart 1). The subsequent easing in those health measures will fuel prompt recoveries in high-touch service industries that should have some staying power. At the same time, however, the rapid ascent in oil prices is exerting a dampening force on overall spending, given Quebec's status as a net oil importer. The province's export sector is also expected to feel a pinch from a weaker demand profile, notably in Europe.

Netting out these various cross-currents, we still anticipate the province to record above-trend growth this year. Beyond the anticipated recovery in hard-hit services industries, capital investment by the provincial government, alongside robust program spending should add significantly to growth. Note that capital spending intentions data showed a plan to ramp up public sector construction investment by 15% in 2022. The government is also tracking a $3.7 billion surplus through the first 8 months of FY 2021/22 (versus expectations of a deficit in the fall update). This could provide the ammunition required for the government to roll out even more relief from inflation pressures in its next budget in late March. Notably, the government had already taken steps towards easing the inflation burden in its 2021 fiscal update through payments to households and relief for seniors.

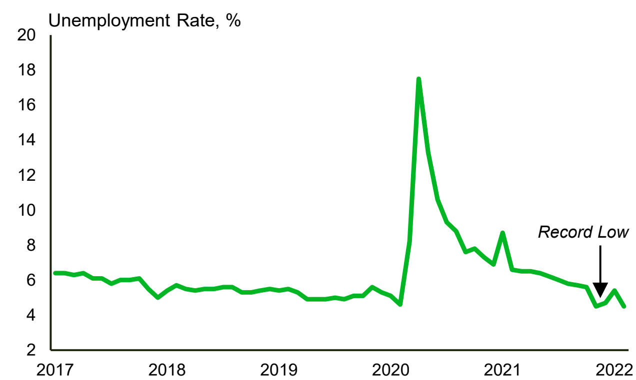
One consequence of Quebec's rapid recovery has been for the province to bump up against capacity pressures in its jobs market. In December (before the full weight of Omicron struck), Quebec's unemployment rate was 4.7%, almost in-line with its pre-pandemic level which was near the lowest on record (Chart 2). While near-term growth challenges could ease some pressure on this front, the prospect of muted population gains points to this issue remaining as a headwind to the expansion over the forecast period.

Chart 1: Quebec Responded to Omicron in a Very Forceful Way, Impeding Early-year Growth



Source: Bank of Canada, TD Economics.

Chart 2: Before Omicron Struck, Quebec's Unemployment Rate Had Hit a New Low



Source: Statistics Canada, TD Economics.

Québec Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2021	2022	2023
Real GDP	6.2	3.1	2.2
Nominal GDP	11.0	6.6	4.7
Employment	4.2	3.0	0.7
Unemployment Rate (%)	6.1	4.5	5.0
Housing Starts (000's)	71.1	58.1	50.4
Existing Home Prices	20.0	14.1	0.9
Home Sales	-1.6	-9.5	-0.2

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

New Brunswick

Amid extremely tight markets, New Brunswick home prices advanced at the fastest pace in the country last year, while also climbing rapidly to begin 2022. This strength has been underpinned by the strongest population growth since the 1970s (Chart 1). Interprovincial migration looks to have been the main growth driver in 2021 for the first time since at least the 1960s, with remote work and the availability of relatively affordable housing likely behind this trend.

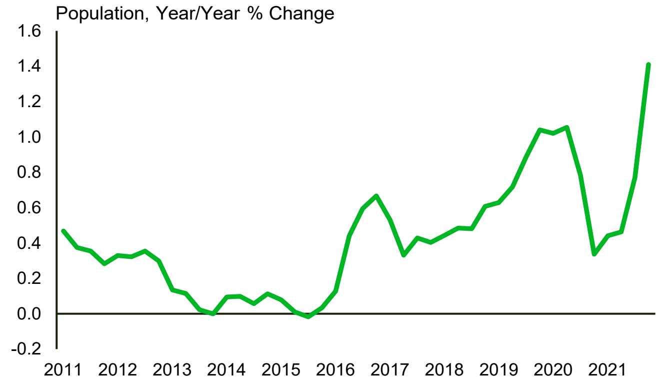
In 2022, interprovincial migration will likely ease up as return-to-office becomes more ingrained, which is expected to sap some steam from population growth. Alongside rising interest rates and eroded affordability, this should weigh on housing market activity and home prices in 2022. Still, prices are likely to post yet another frothy annual average gain, thanks to tight supply/demand balances.

Government investment is set to play an important role in supporting New Brunswick's growth this year as the province's capital budget called for a 6.4% increase in spending during FY 2022/23. This squares with the recently released data on investment intentions, in which a double-digit gain in government capital spending was expected in 2022 (Chart 2). In contrast, we expect housing starts to ease this year as interest rates rise, weighing on construction activity.

The Omicron variant weighed on New Brunswick to begin 2022, although some job losses were clawed back in February. COVID-19 restrictions were lifted in mid-March, which should support the recovery in hard-to-distance sectors. Meanwhile, elevated prices for lumber – an export staple – should provide a terms of trade lift to the province this year. However, actual demand for lumber may soften, given the likelihood of lower U.S. housing starts. Elsewhere, a simliar boost should come to the value of the province's energy exports, given sharply higher prices.

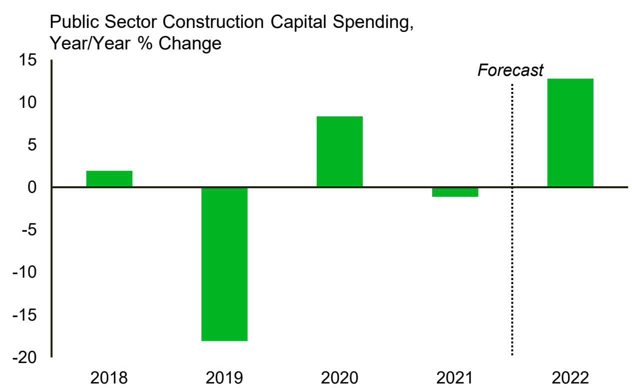
The rate of inflation in New Brunswick has been surpassing that in other regions, as energy and food prices consume a large share of consumer basket. Fortunately, recent wage growth has been running even stronger, producing the fastest real wage growth in the country. However, the recent leg up in energy and food prices will generate even more inflation pressure, eating into household incomes and spending. Given its healthy fiscal position (i.e., a surplus amounting to 1% of GDP in FY 2021/22), the provincial government could choose to roll-out some offsetting support in its upcoming budget.

Chart 1: New Brunswick Seeing a Rapid Pickup in It's Population



Source: Statistics Canada, TD Economics.

Chart 2: Capital Spending Intentions Point to a Pickup in Government Structures Investment in 2022



Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	3.4	2.1	1.1
Nominal GDP	11.7	5.3	3.5
Employment	2.6	1.8	1.0
Unemployment Rate (%)	9.0	8.0	7.9
Housing Starts (000's)	4.0	2.7	2.6
Existing Home Prices	26.7	23.3	1.5
Home Sales	22.5	-7.7	1.8

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

Nova Scotia

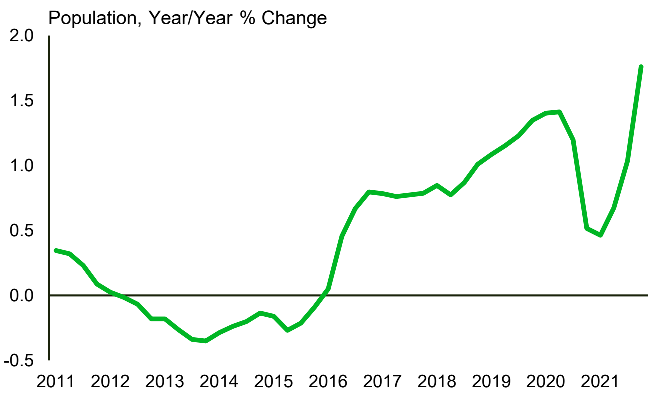
Nova Scotia's economy seemingly powered its way to positive growth early in 2022, despite the weight on high-touch services industries from Omicron-related restrictions. Employment jumped 0.6% m/m in January, supported by gains in finance, insurance, and real estate, as well as manufacturing. Meanwhile, hours worked also increased. Another solid gain was recorded in February, generating a firm launch point for 2022. Indeed, we're anticipating another year of above-trend growth.

Rapid population gains helped the province post strong economic growth before the pandemic struck. Population growth is on the mend (Chart 1) and is likely improve this year, supported by immigration. However, interprovincial migration may cool from its heated 2021 pace, should remote work feature less prominently. Healthy population growth should buoy construction activity, which is already being boosted by the QEII hospital expansion, and should draw further support from the Cogswell residential development project. Indeed, the latest survey of investment intentions reveals a plan to lift capital spending by 12% in 2022.

The province's latest fiscal update, released in December, points to much stronger spending during this fiscal year than projected at the time of the budget. Accordingly, public sector employment jumped 5% in 2021. Government spending is likely to support growth in the first half of the year, which is notable as the public sector accounts for nearly 30% of output in Nova Scotia. Current plans are for spending to drop in FY 2022/23 – a key driver of our projected growth slowdown for next year. However, the province now expects a surplus for this fiscal year (compared to a $700 million deficit at the time of the budget), which should enable some wiggle room to address growth needs, if desired.

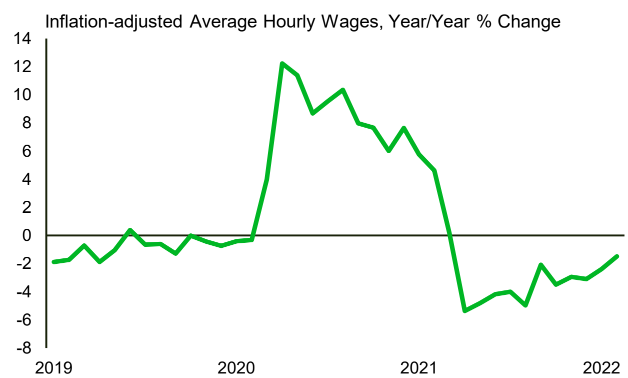
Nova Scotia's export sector is poised to benefit from robust U.S. economic growth, with the potential for some modest improvement in activity within its auto sector a plus for Nova Scotia's important tire manufacturing industry. However, slowing growth and building downside risks in Europe (Nova Scotia sent over 10% of its exports to European Union countries last year) is more of a concern. Also concerning is the fact that inflation has been running at a faster pace in Nova Scotia than the country overall, while wage growth has been modest. And, the recent increase in energy prices has fuelled even stronger inflation. As a result, real wages are rapidly declining (chart 2), which will likely weigh on consumption in coming quarters.

Chart 1: Nova Scotia's Population Growth Is Picking Back Up



Source: Statistics Canada, TD Economics.

Chart 2: Rapid Energy Price Inflation Eating into Incomes in Nova Scotia



Source: Statistics Canada, TD Economics.

Nova Scotia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	3.5	2.0	1.4
Nominal GDP	10.5	6.2	3.6
Employment	5.4	2.6	0.2
Unemployment Rate (%)	8.4	7.0	7.7
Housing Starts (000's)	6.0	6.0	5.6
Existing Home Prices	24.1	18.3	0.4
Home Sales	14.2	-13.9	-0.4

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

Prince Edward Island

Inflation continues to be a major issue for PEI, running at a 7.4% y/y pace in February. Energy and food consumption accounts for an outsized share of the consumer price basket in PEI, which is of little comfort given the recent leg up in oil and food prices. This elevated inflation backdrop will eat into real incomes and likely slow consumption in coming quarters. However, we anticipate some cooling in these prices from their extremely elevated levels moving forward, which is good news for the Island.

Restrictions put in place to contain the Omicron variant likely hit PEI's economy disproportionately. Indeed, employment on the Island plunged 3.5% m/m in January (Chart 1). On the plus side, significant improvement took place in February and the government plans on easing restrictions fully by April 7th.

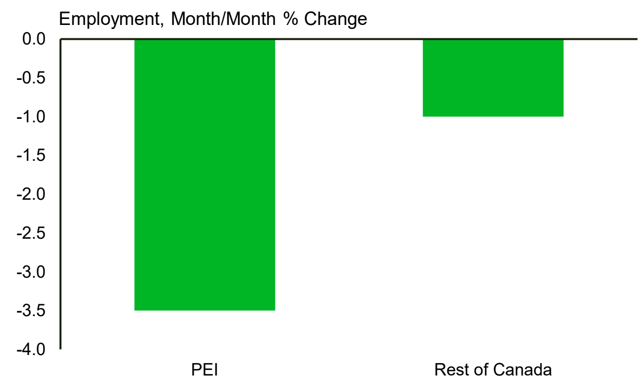
The ban on potatoes exported from PEI to the U.S. remains in place, marking yet another obstacle to the near-term outlook. However, a December national survey conducted by the Canadian Food Inspection Agency reported no wart fungus in seed potatoes. This could provide some reassurance to U.S. policymakers, who have already allowed shipments to Puerto Rico to resume.

Outside of these issues, there are good reasons to be bullish on growth prospects for the Island. For one population growth is strengthening (Chart 2). This should help keep construction activity humming along. Notably, the sector is already slated to receive a sizeable boost from provincial government infrastructure spending.

We also anticipate further recovery in the tourism industry after a temporary setback from Omicron. Support should come from solid growth in the U.S. and a stable Canadian dollar. Note that there had been some progress prior to Omicron taking hold, with overnight stays up 50% from December 2020 to December 2021.

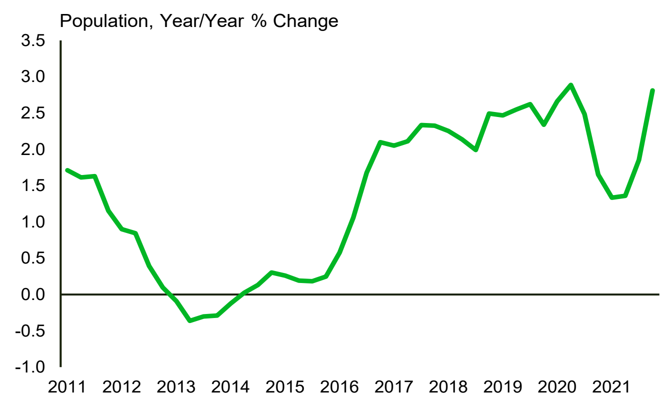
The recently released PEI budget envisions modest spending growth over their 3-year forecast horizon – this is notable as the public sector accounts for 30% of PEI's GDP. Meanwhile, deficit remains above its FY 2021/22 level over the next 3 years and net debt-to-GDP grows but remains low on an historical basis.

Chart 1: Employment Fell More Substantially in PEI During January in Response to Omicron Restrictions



Source: Statistics Canada, TD Economics.

Chart 2: PEI's Population Growth Is Strong Again



Source: Statistics Canada, TD Economics.

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	2.9	2.4	2.5
Nominal GDP	10.1	6.7	4.8
Employment	3.7	4.8	1.0
Unemployment Rate (%)	9.3	8.6	8.2
Housing Starts (000's)	1.2	1.0	1.2
Existing Home Prices	21.7	4.1	-0.6
Home Sales	14.8	-8.8	-14.0

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

Newfoundland & Labrador

Newfoundland and Labrador is poised to benefit from the higher oil price backdrop resulting from the conflict in Ukraine. A boost to the province's terms-of-trade should support incomes while government revenues will likely be padded to a significant degree.

Still, the ability of Newfoundland and Labrador to take advantage of higher oil prices through increased production will be inhibited by the ongoing shutdown of the Terra Nova oil field. Meantime, it's Hebron field remains in steady-state production operations, while White Rose and Hibernia are facing depleting reserves. Note that production began the year on the back foot, declining 18% year-on-year in January after a soft performance in 2021 (Chart 1). In 2023, production is slated to receive a boost, as the Terra Nova oilfield resumes projection later this year.

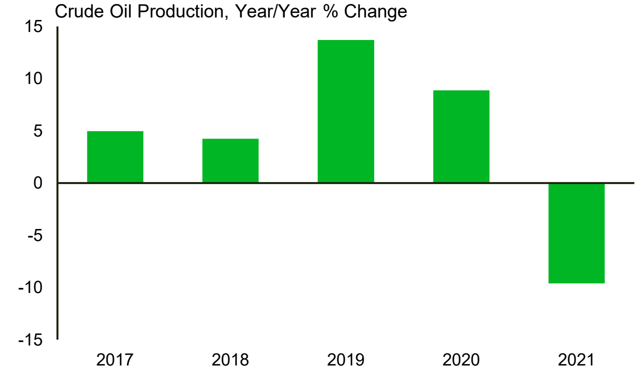
Weak population growth is yet another factor that should keep Newfoundland and Labrador on the lower end of the growth spectrum this year. Interprovincial migration into the province improved in 2021 and was on track to post the first positive net inflow since 2013. However, this trend could soften this year as remote work reduces with return-to-office mandates.

On top of this, non-residential construction is expected to drop this year (Chart 2) according to the capital intentions survey, weighed down by the conclusion of the Muskrat Falls hydroelectric dam project. More positively, work continues on the Voisey's Bay underground mine expansion, as does construction of a new, acute care hospital in Corner Brook.

The Omicron variant impacted growth to begin the year, although the the hit may have been less pronounced than in other parts of the country, as employment in high-touch sectors dipped only 0.9% m/m in January. Notably, employment surged in February and restrictions were dropped in mid-March, which should pave the way for a rebound in high-touch services industries. Along with this recovery, the province's growth should be supported by healthy U.S. demand along with increased production at several mines.

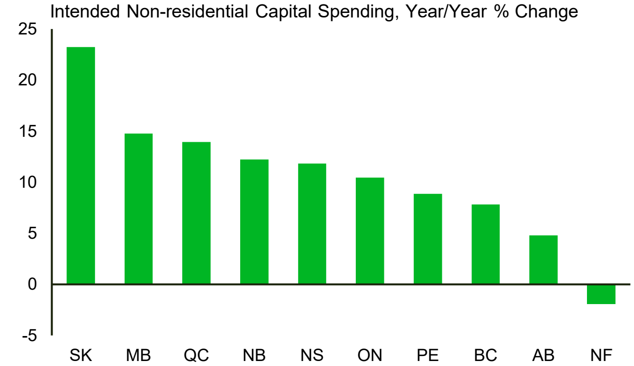
Newfoundland and Labrador's housing market has also been a bright spot, with home sales up 45% in 2021, while climbing higher to begin 2022. Good affordability and economic growth should support demand, although lower interprovincial migration and higher rates should see sales growth soften after its solid first quarter performance.

Chart 1: Oil Production Was Soft Last Year in Newfoundland and Labrador, Off to a Slow Start in 2022



Source: Statistics Canada, TD Economics.

Chart 2: Capital Spending Intentions Point to Dropping Investment in Newfoundland and Labrador This Year



Note: Data is for 2022. Source: TD Economics.

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	3.0	2.3	2.0
Nominal GDP	18.4	12.5	3.0
Employment	3.0	2.8	0.3
Unemployment Rate (%)	12.9	12.2	12.2
Housing Starts (000's)	1.3	1.3	1.2
Existing Home Prices	10.6	4.2	2.1
Home Sales	45.5	7.5	-2.8

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.)		
	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F
National	**4.6**	**3.9**	**3.0**	**13.1**	**9.7**	**5.0**	**4.8**	**3.9**	**1.0**	**7.4**	**5.4**	**5.4**	**277**	**231**	**220**	**22.5**	**15.6**	**1.0**
Newfoundland & Labrador	3.0	2.3	2.0	18.4	12.5	3.0	3.0	2.8	0.3	12.9	12.2	12.2	1.3	1.3	1.2	10.6	4.2	2.1
Prince Edward Island	2.9	2.4	2.5	10.1	6.7	4.8	3.7	4.8	1.0	9.3	8.6	8.2	1.2	1.0	1.2	21.7	4.1	-0.6
Nova Scotia	3.5	2.0	1.4	10.5	6.2	3.6	5.4	2.6	0.2	8.4	7.0	7.7	6.0	6.0	5.6	24.1	18.3	0.4
New Brunswick	3.4	2.1	1.1	11.7	5.3	3.5	2.6	1.8	1.0	9.0	8.0	7.9	4.0	2.7	2.6	26.7	23.3	1.5
Québec	6.2	3.1	2.2	11.0	6.6	4.7	4.2	3.0	0.7	6.1	4.5	5.0	71.1	58.1	50.4	20.0	14.1	0.9
Ontario	4.3	4.2	3.0	11.9	7.9	5.3	4.9	4.5	1.0	8.0	5.6	5.5	101.2	84.0	84.3	24.9	19.5	0.0
Manitoba	3.5	3.7	2.9	10.2	11.0	4.4	3.5	3.2	1.0	6.4	4.7	4.6	8.0	6.9	5.9	10.1	12.7	3.5
Saskatchewan	2.9	4.8	3.4	16.3	20.5	4.3	2.6	4.4	0.8	6.5	4.8	4.9	4.3	4.2	4.4	7.2	3.9	4.1
Alberta	5.3	5.6	3.9	22.1	19.3	5.0	5.2	4.8	2.1	8.6	6.2	5.5	31.9	30.4	29.3	9.1	16.1	4.8
British Columbia	4.8	3.8	2.6	13.2	7.4	5.0	6.6	3.3	1.1	6.5	4.6	4.7	47.7	36.6	35.3	19.8	16.6	0.8

Provincial Economic Forecasts

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