Provincial Economic Forecast

Regional Growth Resiliency On a Time Limit As Rate Hikes Bear Down

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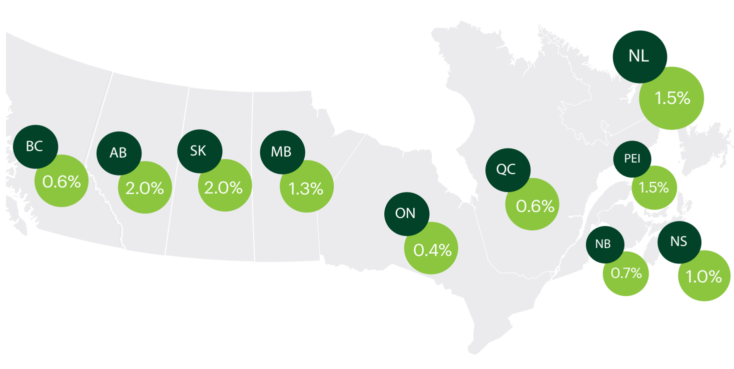
- After their recent surprising display of resilience, most provincial economies are poised to grind to an essential standstill this year. A few provinces (Alberta, Saskatchewan and PEI) are expected to record somewhat healthier gains of around 1.5-2% on average this year.
- Several factors have added to durability in spending in recent months. These include ongoing strength in job markets – especially in Alberta and the Atlantic – a trove of post-pandemic excess household savings built up across economies and growing financial supports to households from governments in the form of daycare subsidies and inflation-relief measures.
- These influences have likely delayed but not extinguished the hit to spending and hiring flowing from the steep interest rate hikes implemented over the past year. Going forward, we expect the dampening effects to become more visible. Households in B.C., Ontario and Alberta are likely to show more outsized sensitivity to high borrowing rates, given their status as the most indebted in Canada, whereas those in Quebec in the Atlantic will likely be less strained.
- So far during budget season we've seen Alberta and B.C. take different tacks, with the former introducing a fiscal framework that encourages sustainable spending. B.C. is keeping the pedal to the metal in terms of near-term spending, which could fan growth and inflation. Manitoba, meanwhile, falls in between in terms of its FY 2023/24 spending commitment.
- Some improvement in recent data suggests that Canadian home sales may soon find their bottom. It's notable that this bottom could be driven by Ontario and B.C. as activity begins to climb back in these two markets. Growth in Canadian average home prices, meanwhile, is likely to lag sales, as markets remain looser than historical averages in B.C. and Ontario.
- Upward growth revisions in China, the EU and the U.S. suggest a stronger external environment than what we thought in December. This more favourable backdrop should benefit exporters in all provinces. Oil prices should also climb given improving Chinese demand, boosting prospects in Alberta, Saskatchewan and Newfoundland and Labrador.

Provincial Real GDP Growth Forecast (2023)



Source: TD Economics. Forecast as of March 2023.

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

British Columbia

Outside of the pandemic recession, British Columbia has had an impressive track record of robust and chart-topping growth for the better part of a decade. However, this run looks set to end this year as the provincial economy enters a period of sluggish, below-trend growth. On the plus side, the anticipated slowdown should help to take pressure off the province's ultra-tight job market and ease inflationary pressures.

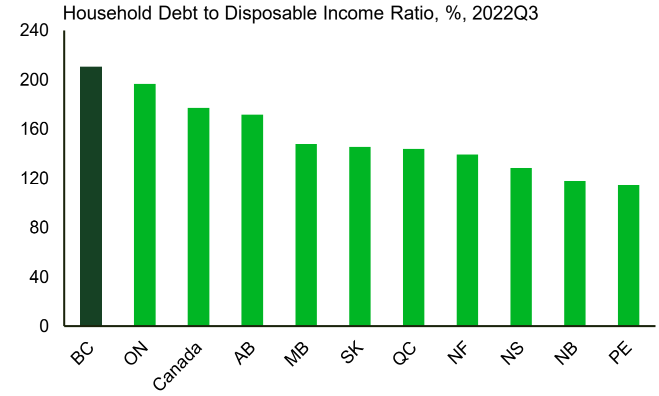
On average, BC households are the most indebted in Canada (Chart 1) and there is growing evidence that they are tightening their purse strings in the face of the Bank of Canada's recent tightening campaign. Case in point, annual retail sales growth for 2022 in B.C. slowed to a modest 2.7% in nominal terms, amounting to an outright contraction in inflation-adjusted terms. In contrast, nominal sales at the national level tipped the scales at 8.2% over the same period. With interest rate impacts still working through the system, consumption is expected to weaken further in the near term.

BC's housing market continues to reveal its sensitivity to higher interest rates, as home sales (as of February 2023) have plunged 49% relative to their 2022 peak levels – the largest decline of any province (Chart 2). At -15%, average home prices have also suffered one of the steepest declines during the current cycle. That said, we believe the market is poised to soon reach a bottom, as evidenced by a slight rebound in sales so far in 2023. Given still-challenging affordability conditions, any housing recovery later this year is likely to be subdued.

A near-term upgrade to growth prospects in China and – to a lesser extent – the US is good news for B.C.'s non-energy export sector (i.e., forestry products and metals/non-metallic minerals). Additionally, the province's export sector will receive a big boost in the medium-term when Canada's first LNG terminal at Kitimat begins producing, likely sometime in early-2025. At the same time, however, the start-up is slated to coincide with a significant hangover on non-residential building activity.

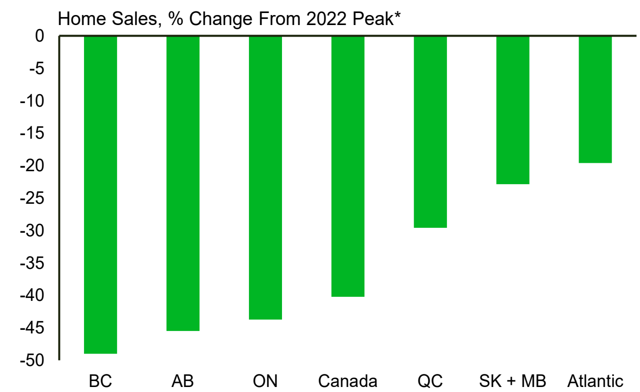
In its latest tabled budget, the BC government plans to turn up the spending taps, leveraging both new federal health money and the province's strong existing debt position. In the year ahead, spending is budgeted to increase by 8% (and capital spending by a hefty 30%). Driven up by forecasted deficits, the province's debt ratio is expected to rise to 18.9%.

Chart 1: B.C. Highly Indebted Households Set to Struggle Under the Weight of Higher Rates



Source: Statistics Canada, TD Economics.

Chart 2: B.C.'s Housing Market Weakness Set to Subtract Signficantly From GDP in 2023



*Most recent data point: February 2023. Source: CREA, TD Economics.

British Columbia Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2022	2023	2024
Real GDP	3.1	0.6	0.2
Nominal GDP	8.2	2.2	2.8
Employment	3.1	1.1	0.1
Unemployment Rate (%)	4.6	5.1	5.8
Housing Starts (000's)	46.7	45.2	37.9
Existing Home Prices	5.3	-12.2	0.8
Home Sales	-35.2	-19.0	18.6

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

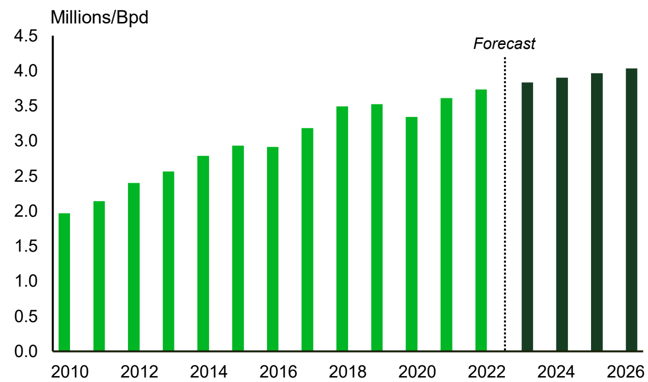
Alberta

Alberta likely finished at the top end of the provincial growth charts in 2022 and is expected to outperform over the next few years. Expansion in the province will continue to receive a lift from relatively high crude prices and rising activity in the oilpatch. WTI prices have moderated from last year's peak of over US$120 per barrel to a range of US$72–82 per barrel in 2023. Still, with China's economy in the process of picking up, we expect WTI prices to strengthen towards US$90 over the course of the year. US economic growth is also proving more resilient than expected, providing a fillip to crude exports stateside. After reaching a record 3.7 million barrels per day last year, oil production in the province is slated to rise another 2.7% in 2023 (Chart 1), while drilling activity holds firm at 5-year highs. The completion of the TMX expansion project by the end of 2023 will provide an assist of ~590,000 bpd in production capacity, allowing Albertan oil to reach new global markets.

In addition to favourable oilpatch fortunes, robust interprovincial migration flows greased the wheels of hiring and spending in the province heading into the New Year. At last count (Q3-22), Alberta posted the fastest total net migration (+52,000) in the third quarter of 2022, with nearly half of that count attributed to interprovincial migrants (chart 2). While the migration impetus appears to have some staying power, spending and job creation look set to slow as past interest rate take a growing bite out of household and corporate budgets. Among the provinces, Alberta ranks third in terms of average household debt-to-income, trailing behind only British Columbia and Ontario.

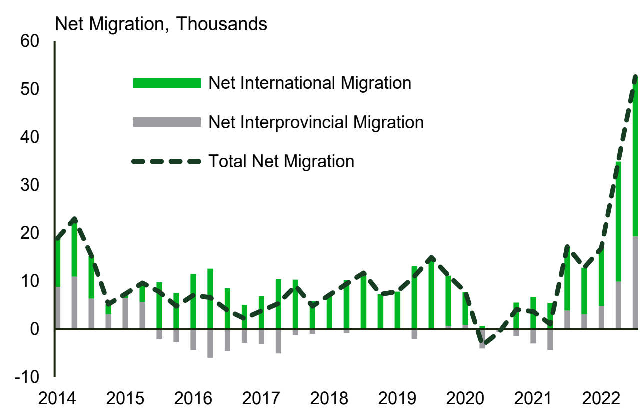
Alberta's 2023 provincial budget capitalized on the province's healthy fiscal position by paying down $13.4 billion of debt with help from a record resource revenue windfall. Even in the face of an inevitable slowdown in growth, modest surpluses are expected to persist over the coming years. A new fiscal framework was also introduced that includes a balanced-budget requirement, caps spending growth at population plus inflation and directs any year-end cash to a new Alberta Fund. Priority spending areas were in healthcare as well as ramped-up transportation infrastructure investment.

Chart 1: Alberta Oil Production to Ramp Up on Strong Sector Outlook



Source: Alberta Energy Regulator, TD Economics.

Chart 2: Immigration is Driving Alberta's Population Growth



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	4.7	2.0	0.9
Nominal GDP	21.4	0.0	3.1
Employment	5.2	2.3	0.2
Unemployment Rate (%)	5.8	6.2	6.7
Housing Starts (000's)	36.4	30.2	28.8
Existing Home Prices	4.8	-4.2	2.6
Home Sales	-1.9	-23.9	7.2

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

Saskatchewan

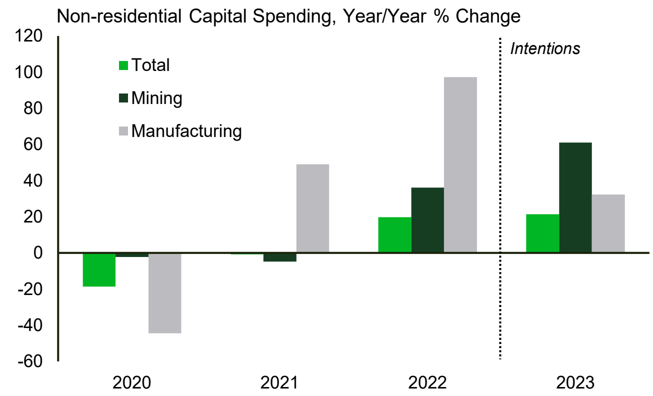
As higher borrowing costs work their way through Saskatchewan's economy, what was booming economic activity in 2022 should transition into a much slower growth pace this year. That said, Saskatchewan should be one of the nation's growth leaders in 2023. Household debt-to-income ratios have fallen sharply in recent quarters and remain low relative to other provinces. At the same time, consumer insolvencies are on a sharp downtrend. These dynamics point to some resilience on the part of consumers. In addition, it looks like Saskatchewan's economy was carrying solid momentum into 2023 and started the year on the right footing. Indeed, hiring was up solidly in the fourth quarter and followed that up by surging 7.5% m/m annualized (on average) in January and February. What's more, the recently released capital spending intentions survey revealed an impressive 22% gain in non-residential investment spending is expected for this year (Chart 1), boosted by the Jansen potash project.

Tensions in Ukraine and China's reopening have helped keep prices for key commodities produced by Saskatchewan (like wheat and canola) high while also stoking demand for potash. We see a continuation of these trends this year as the war remains ongoing. However, potash production was hit by the temporary closure of the Colonsay mine late last year, although it's slated to resume in the first quarter. Over the longer-term, potash production will receive a sizeable boost from completion of the Jansen potash mine, with first production planned in 2026.

Agricultural production should also increase this year after a blowout 2022 where crop output surged 55% following the drought in 2021. Oil production is also likely to climb this year amid elevated prices. This is consistent with rig counts, which have increased about 20% year-on-year so far in 2023. Note that even if oil production increases as we expect, the rate of gain will likely be subdued, much like what we saw last year when the WCS oil price shot up 40% but production only advanced by 2.5%.

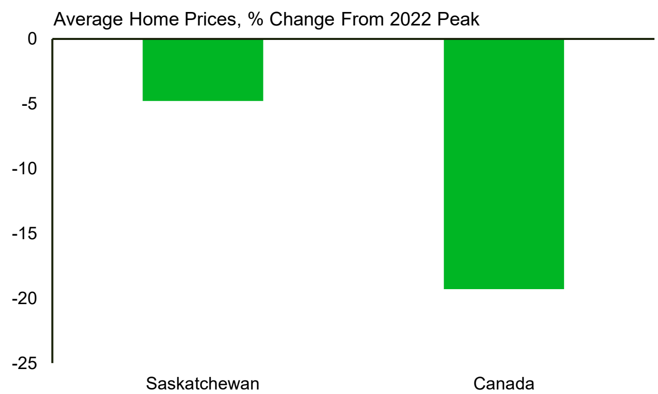
Saskatchewan's housing market is holding up relatively well (Chart 2), as average home prices are down only about 5% from last year's peak. Markets remain relatively tight, and prices increased by much less in Saskatchewan during the pandemic. As a result, affordability remains decent by historical standards unlike most other jurisdictions in the country. This should underpin demand.

Chart 1: Mining, Manufacturing to Support Solid Investment in Saskatchewan This Year



Source: Statistics Canada, TD Economics.

Chart 2: Reslience in Saskatchewan's Housing Market



Source: CREA, TD Economics.

Saskatchewan Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	5.5	2.0	1.2
Nominal GDP	20.8	1.0	3.2
Employment	3.5	1.6	0.1
Unemployment Rate (%)	4.7	4.6	5.3
Housing Starts (000's)	4.2	3.4	3.5
Existing Home Prices	0.1	-2.2	3.1
Home Sales	-11.7	-16.6	5.0

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

Manitoba

Manitoba's economy showed decent growth momentum heading into this year (Chart 1). For one, hiring surged in the fourth quarter of 2022 (followed by gains in January and February) which supported a healthy bounce in inflation-adjusted retail spending. Construction investment also posted a solid gain in 2022Q4, due to a pickup in residential construction activity. Elsewhere, electrical production surged about 80% year-on-year over in the final quarter of last year, as it continued its recovery from a depressed 2021 when drought conditions impeded hydroelectric production.

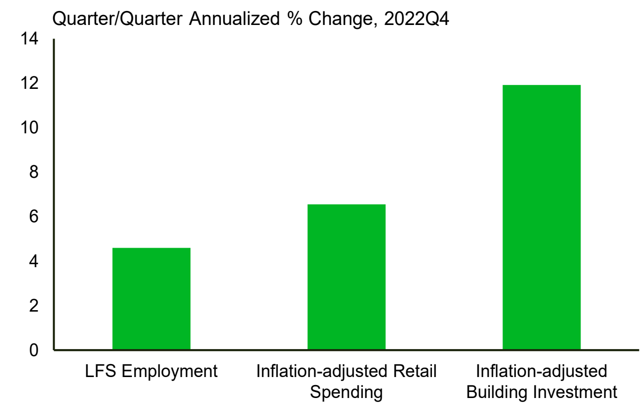
Despite this strong overall hand-off, we expect growth to slow considerably this year. What should be a much weaker global backdrop plays significantly into this view, as it will impact Manitoba's large manufacturing sector. We are also forecasting growth slowdowns in other provinces, which is material as Manitoba typically ships more than 50% of its exports to other parts of Canada. However, improving auto supply chains should offer some offset to these headwinds for manufacturers of transportation equipment.

Higher interest rates will pinch the budgets of households, although likely to a lesser extent than in other provinces, given Manitoba's relatively low average debt burden. Also, the provincial government dolled out another round of inflation relief cheques to households in January worth about $200 million (or 0.2% of GDP). Budget 2023 displayed the government's intention to boost spending by 4.4% in the upcoming fiscal year, partly through inflation-relief measures alongside expenditures in other in priority areas like healthcare, education and community safety. Households will also benefit from the government's plan to increase the Basic Personal Amount exemption by 40%, thereby removing 48k taxpayers from the tax rolls in 2023, according to the government. Manitoba will also increase tax bracket thresholds for the 2024 tax year, offering additional savings.

These measures will come at some cost, as the deficit is forecast to increase to $363 million (0.4% of GDP) versus the $193 million shortfall forecast in the December fiscal update.

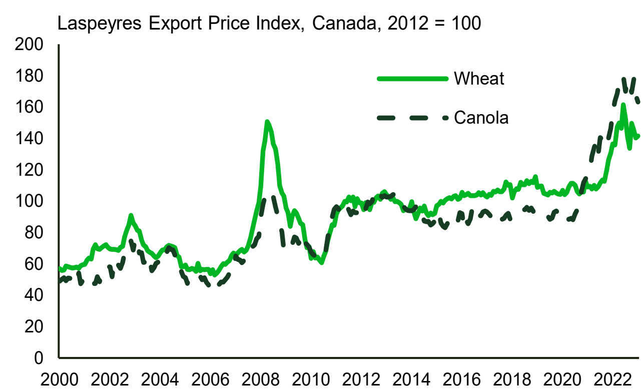
Still-elevated prices for key export commodities like wheat, canola and soybeans should continue supporting incomes in Manitoba's important agricultural sector (Chart 2). On the heels of a massive bounce-back year in 2022, global demand for Manitoba's agricultural products should remain firm this year, particularly given the conflict in Ukraine which has disrupted supplies to global markets.

Chart 1: Manitoba's Economy Likely Had Solid Momentum Heading Into This Year



Source: Statistics Canada, TD Economics.

Chart 2: Elevated Prices for Key Commodity Exports Should Support Incomes in Manitoba This Year



Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.8	1.3	0.8
Nominal GDP	9.9	3.1	3.2
Employment	3.2	1.4	0.2
Unemployment Rate (%)	4.5	4.9	5.6
Housing Starts (000's)	8.1	5.6	5.3
Existing Home Prices	6.9	-5.4	2.1
Home Sales	-20.1	-10.5	10.1

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

Ontario

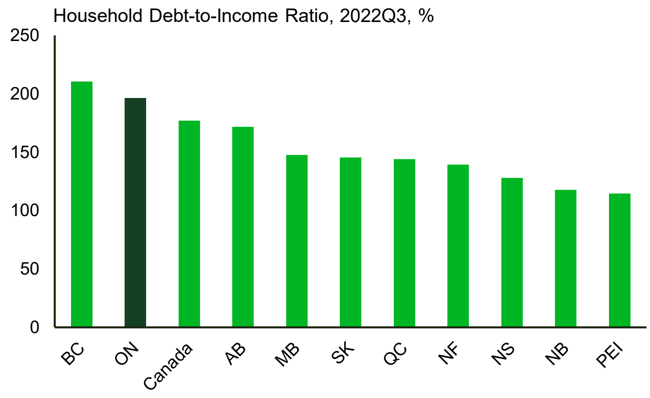
Our own internal data on debit and credit transactions reveal that consumer spending in Ontario has begun the year in resilient fashion even as households contend with elevated inflation and higher borrowing costs. Support has come through solid job markets, with 80k jobs added in the first two months of the year. In addition, the federal/provincial daycare agreement has slashed fees for a chunk of households. Finally, incomes were padded at the end of 2022 by the federal government's one-time GST rebate cheques, although the scale of so-called "inflation-relief" offered by the provincial government trails other parts of Canada so far.

However, even with these supports (and the additional tailwind coming from robust population growth), it's likely only a matter of time before households in Ontario are forced to significantly curb their spending as higher rates push debt servicing costs to record levels. Note that our interest rate forecasts have been upgraded since the December forecast, implying an outsized impact on Ontario's households, as they are among the most highly indebted in Canada (Chart 1).

There are signs that the worst is has passed for Ontario's housing markets. Home sales were flat in the fourth quarter and increased, on average, in January and February. Moving forward, we expect activity to grind higher, although a more elevated path for rates should elongate the recovery. Indeed, sales are likely to remain below prepandemic levels through 2024. With markets relatively loose, price growth is likely to lag that of sales in the coming quarters.

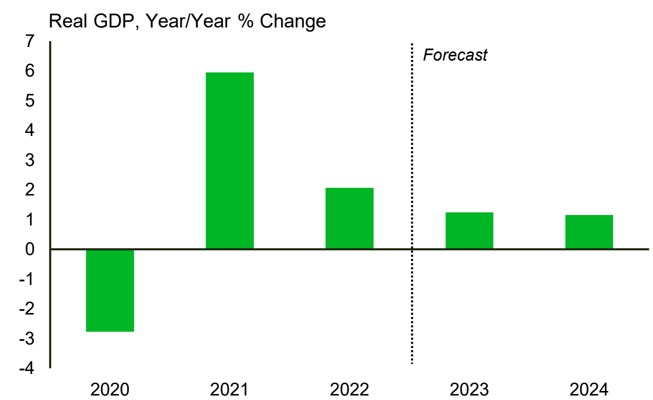
After turning in an impressive 18% gain in nominal sales in 2022, Ontario's manufacturing sector is likely to face a more difficult 2023. Key to this view is our expectation that the U.S. economic expansion will slow meaningfully (Chart 2). At the same time, growth prospects in Europe look soft. Meanwhile, economic growth should also slow in other parts of Canada in addition to Ontario. The main offset here is auto production, which we expect to further normalize after shooting higher in January, although a low Canadian dollar will also help export competitiveness. Automakers have announced significant investments in EV production in Ontario, brightening the medium-term outlook for the sector. In March, Volkswagen announced a new EV battery plant to be built in St. Thomas.

Chart 1: Ontario's Households to Struggle Under the Weight of Higher Rates This Year



Source: Statistics Canada, TD Economics.

Chart 2: Weaker U.S. Economic Growth to Weigh on Ontario This Year



Source: BEA, TD Economics.

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.6	0.4	0.1
Nominal GDP	8.8	2.8	2.7
Employment	4.6	1.8	-0.1
Unemployment Rate (%)	5.6	5.5	6.6
Housing Starts (000's)	96.1	84.6	82.0
Existing Home Prices	4.5	-13.3	0.8
Home Sales	-32.3	-8.1	18.0

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

Québec

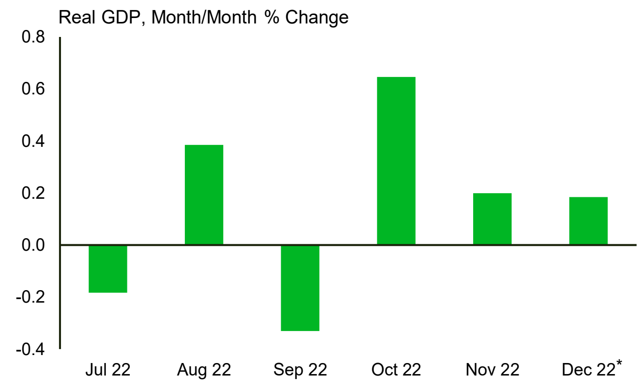
A portion of this year's expected slowdown in Quebec's annual average GDP growth can be put down to some weakness in the back half of last year. Economic growth contracted in the third quarter, sparking fears that a technical recession was unfolding in the province. However, it looks like Quebec managed to avoid that fate by regaining some traction to cap off 2022 (Chart 1). That said, inventories are a risk given their large subtraction from national economic growth in 2022Q4. Looking to 2023, investment intentions point to a 10% surge in capital spending, bolstered by planned outlays to decarbonize Rio Tinto Fer et Titane's operations.

Consumer spending continues to hold up decently in the province. In the third quarter of last year, consumption advanced 1.5% annualized, bucking the decline observed nation-wide. Meanwhile, in the fourth quarter, inflation-adjusted retail spending increased. Although the impact of past interest rate increases is expected to become more visible in the coming months, there are plenty of reasons to expect Quebec's consumer to hang in relatively tough. For one, household savings rates are highly elevated, partly reflecting the payout of sizeable inflation relief cheques by the government in December. This points to a stockpile of funds which can be drawn from to finance consumption. What's more, households in the province are sporting lower average debt burdens than other provinces, shielding them from higher rates to a degree.

Wage growth in the province is also very robust. This is due to very tight job markets (Quebec's unemployment rate is the lowest in Canada on a trend basis) which are partly a function of slow population growth and an older population. However, job vacancies are heading lower (Chart 2), likely pressured downwards by the considerable job growth that's taken place in recent months. As economic growth cools below trend this year, we foresee upward pressure on Quebec's unemployment rate. This should go some ways towards rebalancing labour demand and supply.

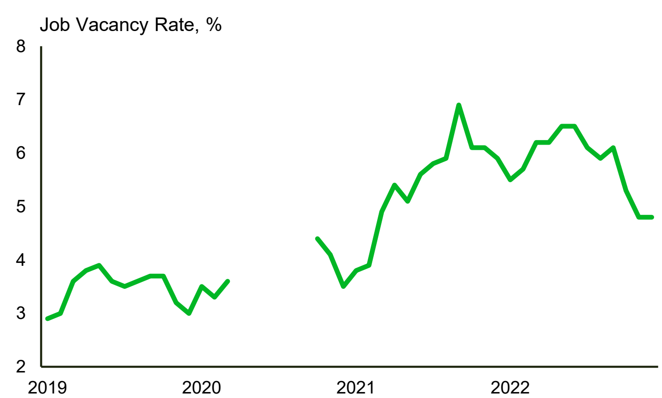
Weaker U.S. demand should weigh on the province's outsized manufacturing industry this year, although a relatively competitive Canadian dollar in the $0.72-0.76 cent range could provide some offset. Notably, output in the aerospace manufacturing industry is moribund, although a series of investments in the so-called "Battery Valley" in Bécancour has turned it into an emerging hotspot for EV battery production.

Chart 1: Québec Avoids Technical Recession With Bounce-back GDP Performance in 2022Q4



*Estimated by TD Economics. Source: Institut de la statistique du Québec, TD Economics.

Chart 2: Some Signs of Cooling in Québec's Ultra-Tight Jobs Market



Source: Statistics Canada, TD Economics.

Québec Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	2.7	0.6	0.3
Nominal GDP	9.1	2.8	2.9
Employment	3.1	1.9	-0.7
Unemployment Rate (%)	4.3	4.7	5.9
Housing Starts (000's)	58.6	44.8	39.6
Existing Home Prices	9.3	-4.2	1.8
Home Sales	-20.4	-20.5	6.7

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

New Brunswick

We remain optimistic that consumption in New Brunswick will hold up well compared to other jurisdictions, with the province poised to outperform most of the larger provinces in terms of GDP growth this year. We've already seen some evidence of resilience, as inflation-adjusted retail spending held at solid levels last year and even picked up smartly in the fourth quarter.

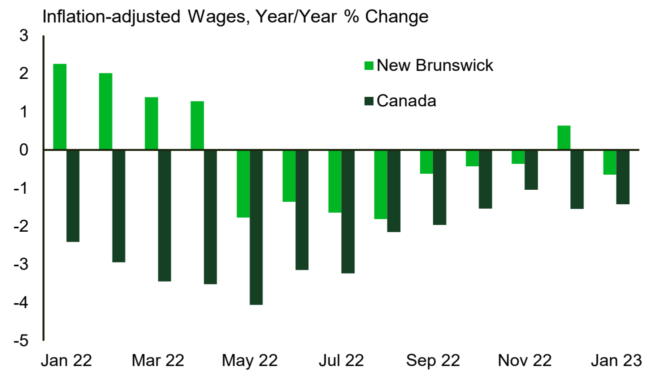
Several factors underpin our view on consumer spending. For one, nominal wage gains have managed to keep up with inflation despite the latter running among the hottest across the provinces (Chart 1). What's more, household debt burdens are among the lowest in Canada, blunting the impact of higher rates on household budgets. Population growth continues to run strong, fueled by immigration, non-permanent residents, and interprovincial migration. The latter did break meaningfully lower in the third quarter of last year, consistent with our view that this source of population growth would slow as remote working ebbed to some extent.

Further supporting the narrative that consumption will outperform in New Brunswick, mortgage payments continue to gobble up a relatively small share of household incomes. That said, affordability has deteriorated significantly compared to pre-pandemic levels in New Brunswick (average home prices shot up 70% during the pandemic). This factor, (combined with the likelihood that interprovincial migration continues to cool) should weigh on home sales in the near-term. This is even as they've already dropped 30% from their 2022 peak. As a result, home prices will likely fall further. That said, resale markets remain incredibly tight (Chart 2), likely limiting the scope of decline.

New Brunswick's exporters face a more challenging outlook relative to the past few years. Over 90% of the province's international exports are shipped south of the border, where we foresee a significant slowdown in economic growth this year. However, both China and India (important export destinations) are likely to record solid growth. Interprovincial shipments, meanwhile, account for over half of total exports and domestic economic activity is also poised to slow.

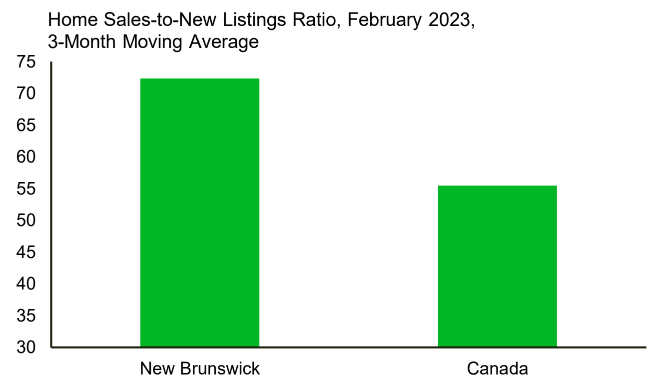
New Brunswick's government has run surpluses for several years (including pandemic-ravaged 2020) and the Provinces' fiscal backdrop continues to be healthy. In its February fiscal update, the provincial government projected a FY 2022/23 surplus worth about 1.9% of GDP while net debt-to-GDP was pegged a relatively small 25%.

Chart 1: Real Wage Growth Holding Up Well in New Brunswick



Source: Statistics Canada, TD Economics.

Chart 2: Housing Markets Remain Tight in New Brunswick, Which Should Limit the Extent of Near-term Price Declines



Source: CREA, TD Economics.

New Brunswick Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2022	2023	2024
Real GDP	1.7	0.7	0.4
Nominal GDP	5.6	2.3	2.4
Employment	2.7	1.9	-0.2
Unemployment Rate (%)	7.2	7.3	7.9
Housing Starts (000's)	4.7	2.1	2.0
Existing Home Prices	16.8	-6.7	0.3
Home Sales	-20.4	-13.7	9.5

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

Nova Scotia

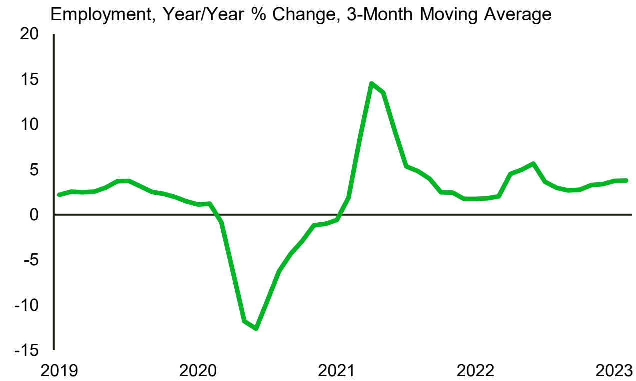
Nova Scotia's economy is facing headwinds, as it has yet to feel the full brunt of the Bank of Canada's interest rate hiking campaign. In addition, we expect the external backdrop to be weaker, led by likely slowdowns in the U.S. and Europe. However, an upgraded outlook for China will provide some offsetting support, especially as the country is Nova Scotia's second largest export destination. Economic growth is also likely to slow in other provinces, which is important as they account for over 50% of Nova Scotia's exports. And, the latest investment intentions survey points to a 1.5% decline in non-residential capital spending this year.

Yet, there are reasons to believe Nova Scotia will weather these challenges better than many other provinces. For one, households are carrying relatively low debt levels, making them less interest rate sensitive. In addition, labour demand continues to be firm (Chart 1), with the province reporting job gains in January and February (on average), building on last year's strength. Tight job markets are also spurring robust wage growth. What's more, the province announced an inflation relief package for households in December worth about 0.2% of GDP. Population growth also continues to break records (Chart 2) and recent immigrants to Nova Scotia tend to sport relatively high employment rates.

Government spending also could add more to near-term growth than we had projected in our previous forecast. Nova Scotia's latest fiscal update (released in December) revealed the government's plan to spend about $850 million (1.5% of GDP) more in operating expenses in FY 2022/23 compared to their September update, although a lower level of capital spending was also projected. Meanwhile, the province's FY 2022/23 deficit projection was shaved to $364 million, or a mere 0.4% of GDP.

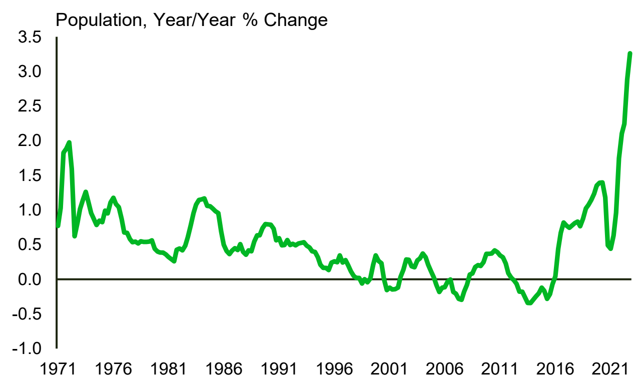
Average home prices have dropped 10% from their peak in Nova Scotia, roughly in line with most of the other Atlantic Provinces. While further near-term downside is likely, markets remain tight thanks to a pull-back in new listings partially offsetting the steep decline in sales. This tightness should limit the magnitude and duration of prices declines, although a big risk here is interprovincial migration. We expect migration flows from other provinces to ease from its robust 2022 pace. However, should it cool by more than anticipated, home price declines could be more severe, especially as they ran up 70% during the pandemic, the most of any province.

Chart 1: Nova Scotia's Jobs Market Carried Solid Momentum into 2023



Source: Statistics Canada, TD Economics.

Chart 2: Record-breaking Population Growth in Nova Scotia to Support Domestic Demand



Source: Statistics Canada, TD Economics.

Nova Scotia Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2022	2023	2024
Real GDP	2.2	1.0	0.6
Nominal GDP	8.3	3.2	3.2
Employment	3.6	2.4	-0.1
Unemployment Rate (%)	6.6	6.2	7.0
Housing Starts (000's)	5.6	5.1	5.2
Existing Home Prices	13.6	-6.3	0.2
Home Sales	-21.7	-19.1	7.8
Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics			

Prince Edward Island

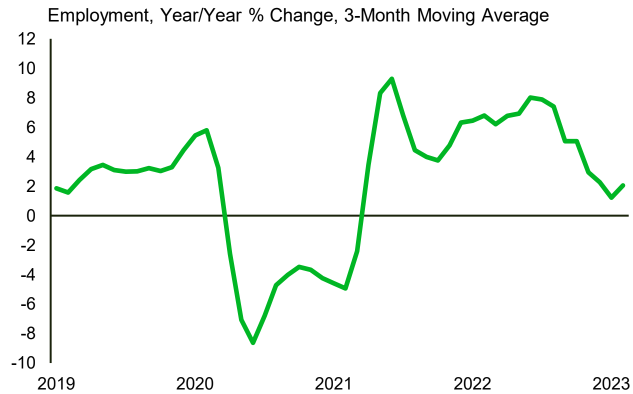
PEI's jobs market is cooling, supporting our view that economic growth should ease significantly this year, as higher rates weigh on households and businesses. Employers eased their hiring at the end of last year, and shed jobs in January, before some recovery took place last month (Chart 1).

That said, we've upgraded our 2023 growth forecast, compared to our December projection, on the strength of a few factors. For one, consumption could hold up better than previously thought. Notwithstanding the recent cooling, job markets remain among the tightest in Canada, spurring robust wage growth. Earners on the lower end of the income spectrum also received a nice boost from the Island's 6% minimum wage hike in January. Also, while not a new development compared to our December forecast, rents in 2023 will be frozen. This is after they've surged about 25% since 2019. This factor, alongside less intense energy price inflation, should cool piping-hot price pressures on the Island this year. Note that PEI's inflation rate is down about 4 ppts from its 2022 peak, even with it still running at the fastest pace in the country. Population growth should also remain robust on the Island – supported by immigration – which will boost consumption. Finally, households now sport the lowest debt burden of any province (Chart 2), making them comparatively less sensitive to higher interest rates.

We also see some near-term growth upside from the government's latest fiscal update, released in late December. In it, they've pledged an additional $220 million (or about 2% of GDP) in program spending in FY 2022/23, including funds dedicated to the recovery from the devastating impacts of Hurricane Fiona.

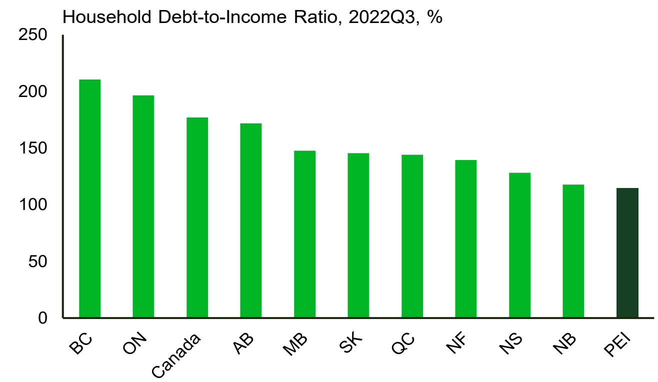
Unfortunately, the hurricane severely impacted the fishing industry, with wharves and harbours destroyed and processing plants damaged. This could impact exports of these goods, although, more broadly, we see a challenging backdrop for PEI's exporters. This stems from our view that economic growth is poised to ease in major trading partners like the U.S., European Union and the United Kingdom. Meanwhile, activity in the rest of Canada is poised to slow, which should weigh on interprovincial shipments.

Chart 1: Job Growth Cooling in PEI, Consistent with Our Forecast for An Economic Slowdown



Source: Statistics Canada, TD Economics.

Chart 2: PEI's Relatively Lower Household Debt Burden Shields it From Higher Rates to a Degree



Source: Statistics Canada, TD Economics.

P.E.I. Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2022	2023	2024
Real GDP	2.8	1.5	1.0
Nominal GDP	10.5	3.9	3.6
Employment	5.3	0.7	0.1
Unemployment Rate (%)	7.5	8.0	8.7
Housing Starts (000's)	1.0	1.0	1.1
Existing Home Prices	13.8	-5.4	0.2
Home Sales	-18.0	-15.3	16.2

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

Newfoundland & Labrador

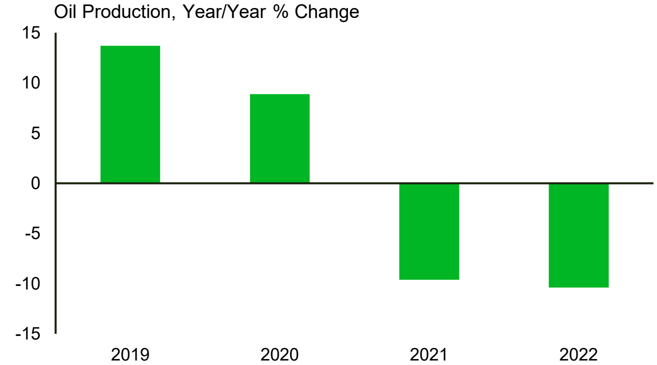
Newfoundland and Labrador's economy turned in a decidedly mixed performance in 2022. Overall output appears to have contracted, despite the province having recorded a solid 4% gain in employment. It should be noted that historically, employment and GDP can diverge. In addition, Newfoundland and Labrador is no stranger to volatile economic activity, with real GDP falling half of the time in the 10 years before 2022.

Fortunately for the province's outlook, one of the major culprits behind last year's output drop was temporary, as production from the Terra Nova offshore oilfield was sidelined so that the vessel used to extract oil could undergo repairs. As a result, oil production plunged 10% last year (Chart 1). With production from Terra Nova slated to come back online in 2023, oil output should bounce-back smartly. Over a longer-term horizon, oil production will receive a boost from the West White Rose expansion project (which is lifting construction activity in the near-term), with first oil slated to come by 2026. Notably, the Bay du Nord mega project was released from environmental assessment earlier in the year and the Come By Chance refinery is being converted to a new biofuel operation.

Newfoundland and Labrador's housing market is likely to keep up its recent trend of outperformance (Chart 2) this year. Our view is conditioned on the fact that affordability remains attractive in Newfoundland and Labrador and the economy should record relatively strong growth this year. Even population growth (while not strong compared to other regions in Canada) has picked up to multi-year highs, underpinning demand. That said, some of this demand should dissipate as interprovincial migration slows moving forward.

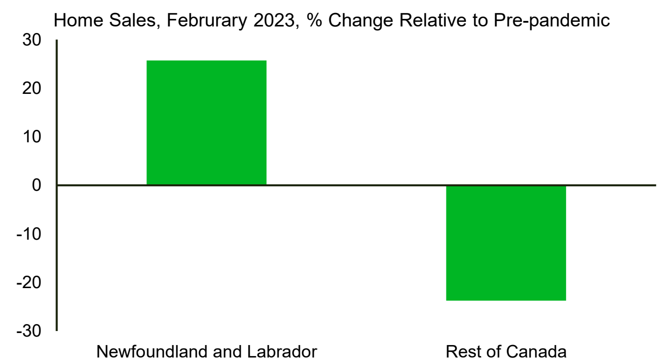
Although oil production (and exports) should recover this year, a weak growth backdrop in the U.S. and Europe could restrain the extent of the rebound. Moreso than any other province, Newfoundland and Labrador's exporters are levered to international markets. As such, exports of other key commodities like seafood and metals will likely be held back by soft global demand. Higher borrowing costs should also weigh on economic growth, although like other Atlantic Provinces, households in Newfoundland and Labrador are less indebted, reducing their sensitivity to higher rates. Provincial inflation relief cheques (amounting to 0.4% of GDP) were also doled out to households in December, offering a near-term offset to the impacts of inflation and higher interest rates.

Chart 1: The Temporary Sidelining of Terra Nova Curtailed Oil Production in Newfoundland and Labrador Last Year



Source: Statistics Canada, Government of Newfoundland and Labrador, TD Economics.

Chart 2: Decent Affordability and Population Growth Supporting an Outperforming Housing Market in Newfoundland and Labrador



Source: CREA, TD Economics.

NFLD & Labrador Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2022	2023	2024
Real GDP	-0.4	1.5	0.9
Nominal GDP	9.5	-0.1	2.9
Employment	4.3	1.7	-0.3
Unemployment Rate (%)	11.2	11.1	11.9
Housing Starts (000's)	1.7	1.2	1.1
Existing Home Prices	7.1	1.1	2.4
Home Sales	-7.2	-6.0	4.9

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

Provincial Economic Forecasts

Provincial Economic Forecasts																		
Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
National	**3.4**	**0.8**	**0.4**	**11.0**	**2.2**	**3.0**	**4.0**	**1.8**	**-0.1**	**5.3**	**5.5**	**6.4**	**262.9**	**223.3**	**206.5**	**0.8**	**-10.8**	**2.7**
Newfoundland & Labrador	-0.4	1.5	0.9	9.5	-0.1	2.9	4.3	1.7	-0.3	11.2	11.1	11.9	1.7	1.2	1.1	7.1	1.1	2.4
Prince Edward Island	2.8	1.5	1.0	10.5	3.9	3.6	5.3	0.7	0.1	7.5	8.0	8.7	1.0	1.0	1.1	13.8	-5.4	0.2
Nova Scotia	2.2	1.0	0.6	8.3	3.2	3.2	3.6	2.4	-0.1	6.6	6.2	7.0	5.6	5.1	5.2	13.6	-6.3	0.2
New Brunswick	1.7	0.7	0.4	5.6	2.3	2.4	2.7	1.9	-0.2	7.2	7.3	7.9	4.7	2.1	2.0	16.8	-6.7	0.3
Québec	2.7	0.6	0.3	9.1	2.8	2.9	3.1	1.9	-0.7	4.3	4.7	5.9	58.6	44.8	39.6	9.3	-4.2	1.8
Ontario	3.6	0.4	0.1	8.8	2.8	2.7	4.6	1.8	-0.1	5.6	5.5	6.6	96.1	84.6	82.0	4.5	-13.3	0.8
Manitoba	3.8	1.3	0.8	9.9	3.1	3.2	3.2	1.4	0.2	4.5	4.9	5.6	8.1	5.6	5.3	6.9	-5.4	2.1
Saskatchewan	5.5	2.0	1.2	20.8	1.0	3.2	3.5	1.6	0.1	4.7	4.6	5.3	4.2	3.4	3.5	0.1	-2.2	3.1
Alberta	4.7	2.0	0.9	21.4	0.0	3.1	5.2	2.3	0.2	5.8	6.2	6.7	36.4	30.2	28.8	4.8	-4.2	2.6
British Columbia	3.1	0.6	0.2	8.2	2.2	2.8	3.1	1.1	0.1	4.6	5.1	5.8	46.7	45.2	37.9	5.3	-12.2	0.8

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at March 2023.