Provincial Economic Forecast
Growth Performances Becoming More Tightly-Packed

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Highlights

- As expected, economic growth across the country is easing to a more moderate pace in 2018, led by a notable downshift in the four largest provinces.
- Convergence is the watchword. Provincial performances are likely to be unusually tightly-packed this year, with real GDP gains ranging from virtually zero in N&L to a moderate 2.4% in Alberta and British Columbia.
- This edition of the PEF extends out the forecast horizon to 2020. Intensifying capacity constraints will be a key factor limiting the upside for provincial expansion over the medium term. But while the direction of growth is generally expected to be lower, 2019 is still likely to feature a number of above-trend performances partly on the back of a one-time boost to the accounting of GDP from the legalization of cannabis.

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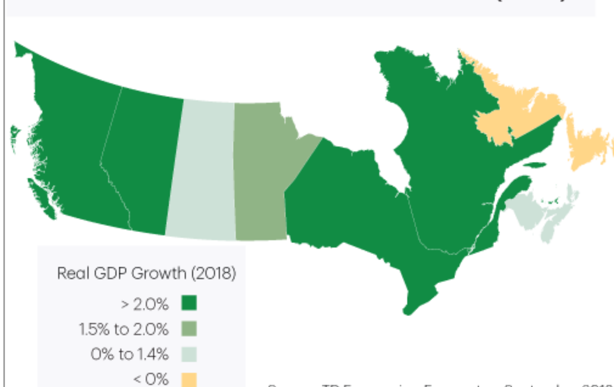
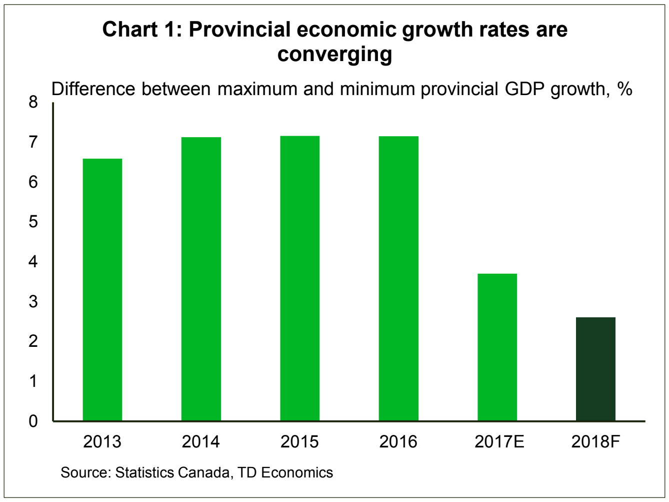
As expected, real GDP growth across the country is braking to a more moderate pace this year on the heels of last year's impressive string of gains. In particular, Ontario and British Columbia look poised to downshift closer to the 2% mark this year after their strong run of around 3%+ over the past few years. The theme of moderation is not only confined to these two provinces, however, as growth is likely to ease across Canada this year. This year's most pronounced growth reversal is taking place in Alberta, where the expansion rate is on track to slow to roughly half of last year's nation-leading 5% turnout. Last year's gains were partially inflated by the rebound from the lows of the 2015-16 recession and wildfire reconstruction, and a slice of this year's slowdown can be chalked up to a temporary disruption in oil sands activity.

Convergence is the watch word. In addition to the slowing direction of growth, a striking observation is how tightly-packed performances are likely to be in 2018. Economic growth is expected to run from a high of 2.4% in B.C. and Alberta to a low of -0.3% in Newfoundland and Labrador. If our estimates prove to be close to the mark, the degree of dispersion across provincial growth rates is likely the smallest in several decades, and quite

Provincial Real GDP Growth Forecast (2018)



Source: TD Economics. Forecast as September 2018.



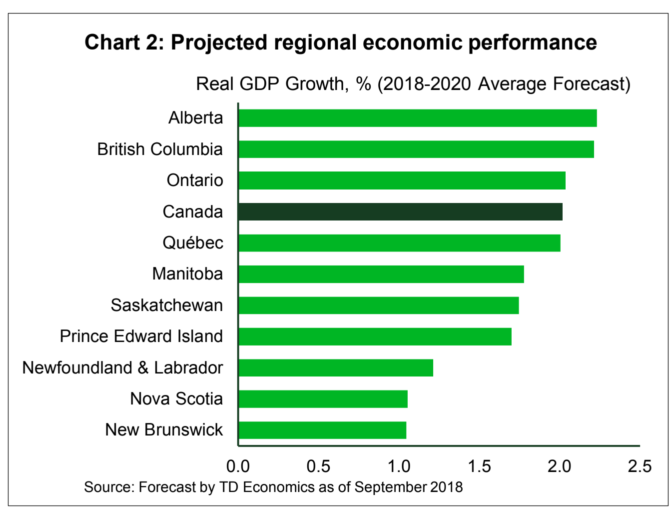
a bit lower than in 2015-17. Another key theme is that while growth has slowed broadly this year, it continues to run above our estimates of a longer-term trend pace in most provinces. For Canada as a whole, this sustainable pace is roughly 1.8%, with the bulk of provinces likely clustering at or slightly below this rate.

This edition of the Provincial Economic Forecast (PEF) extends the outlook by a year, to 2020. With provincial economies already bumping up against capacity constraints, there will be limits to expansion over the next few years, especially as the Bank of Canada continues to take its foot off the monetary accelerator. However, there are good reasons to believe that above-trend like growth conditions will remain in place in 2019, before a more significant convergence on trend takes place in 2020.

- Positive near-term domestic momentum: tailwinds to regional expansion include prospects for solid investment gains in domestic driven industries and rising wages, which will provide ongoing support to household spending.
- Housing on firmer ground: After a tough start to 2018, housing markets have entered the second half of 2018 on firmer ground, particularly in Ontario. While gradually tightening credit conditions will continue to limit potential of an extended leg up in provincial housing markets, some pent-up demand may drive a mini-rally heading into 2019. The following year should see more modest growth ensue.
- Cannabis bump: as Statistics Canada begins incorporating cannabis-related activity later in the year, growth rates are likely to see a temporary boost. We estimate that this impact adds roughly 0.2 percentage points to national GDP growth in 2019. Provincial economies should generally see a similar-sized bump next year as well.
- Continued US expansion in 2019: another year of near 3% growth stateside in 2019 will help to support provincial export industries. Trade policy uncertainty and recent tariffs implemented on steel, aluminum and other industries is almost certainty muting some of the spill-over benefits to provinces of rising US demand. But strong growth will continue to create a positive underpinning for overall provincial exports. It's another story in 2020, when fiscal stimulus and overall gains in US activity wane.

Current NAFTA talks, which are still underway at the time of writing, remain a wild card for the forecast. Our projections implicitly assume some ongoing but gradually diminishing uncertainty around trade policy. Thus, a successful NAFTA deal would not imply much change in our overall forecast view. However, depending on the details and any sectoral concession made, some provinces may face more significant tweaks in coming forecasts.

Putting it all together, economic growth is likely to hold steady or even accelerate in a number of provinces in 2019, before giving some ground up in 2020. Commodity-based provinces still possess some greater room to grow relative to their non-resource counterparts. Still, lacklustre commodity markets will limit the scope for outperformance over the next few years.



BRITISH COLUMBIA

BC is expected to lead economic growth this year, sharing the podium with a still-recovering Alberta. This will mark a slowdown in growth following several gangbuster years. A weakening in the province's housing markets and increasing evidence of capacity constraints are the main reasons for the anticipated deceleration. Still, armed with healthy fundamentals (evidenced in broad-based growth across industries) and a strong demographic profile, BC should see above-trend growth of 2.4% in 2018.

On the labour market front, indicators are strongly pointing to tightening conditions. BC's unemployment rate is the lowest in Canada, averaging just below 5% this year, while the province's job vacancy rate, at 4.2%, is the highest. Indeed, according to the Bank of Canada's Business Outlook Survey, BC is amongst the top in the country in both physical and labour constraints. With workers harder to come by, job growth has slowed. This, accompanied by above-average wage growth, is strong evidence that the economy is running at full employment.

The tight labour market should translate into higher consumer spending. Retail sales have gone up a healthy 3.8% year-to-date relative to last year. We expect this to continue over the forecast horizon, with sales supported by income growth, which will get an additional boost from scheduled increases in the minimum wage.

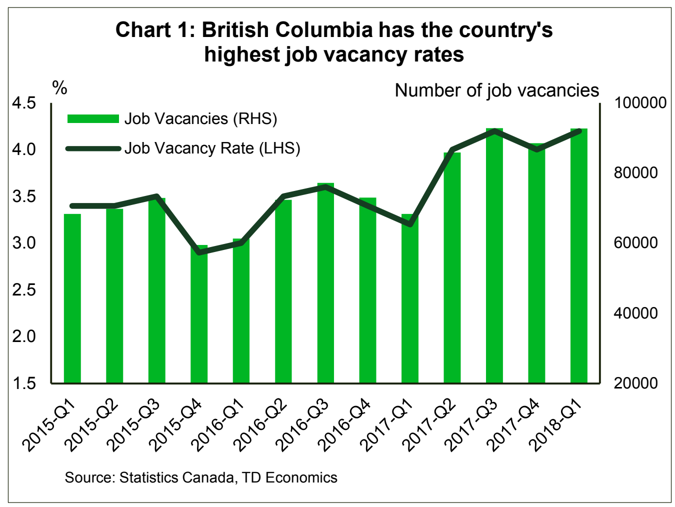
The economy's current weakest link is undoubtedly its housing market. The compounding effects of affordability and rising rates, in addition to provincial regulations, are weighing on sales and residential investment. Year-to-date home sales in the province are down a drastic 20% relative to last year, driven by the GVA market. A slowdown in housing is a long time coming, and while some improvement is likely, this sector is unlikely to be the supportive force it has been over the past several years.

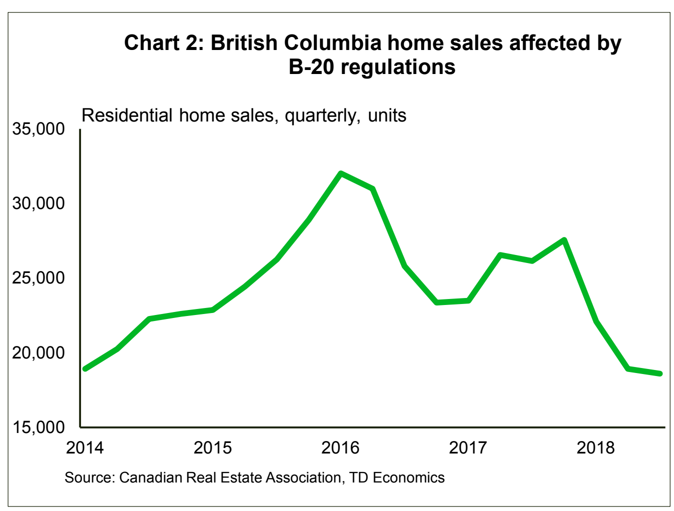
The good news is that non-residential construction may add some offset, supported by the Site C Dam project. A key upside to the province is a potential $40 billion LNG Canada terminal investment in Kitimat awaiting a final investment decision. Any materialization of this project should have a significant broad-based impact, in addition to easing up the currently depressed Canadian natural gas prices.

BRITISH COLUMBIA ECONOMIC FORECASTS
[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	2.4	2.2	2.0
Nominal GDP	4.6	4.3	3.7
Employment	0.5	0.6	0.5
Unemployment Rate (%)	5.0	5.0	5.2
Consumer Price Index	2.7	2.2	2.1
Retail Sales	3.2	4.2	3.3
Housing Starts (000's)	40.7	33.8	33.6
Existing Home Prices	1.1	2.4	2.6
Home Sales	-23.6	7.7	-1.3

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





ALBERTA

After tallying an impressive rebound in activity in 2017, Alberta's economy is set to record a sharp moderation this year. This year-over-year swing can be partly chalked up to reconstruction efforts following the wildfires, which inflated last year's turnout, while unplanned outages in the oil sector have weighed on the 2018 showing. Looking through these distortions, the theme remains one of a gradual recovery from the 2015-16 recession. By 2020, the unemployment rate is expected to fall to sub-6%, a level more in line with our estimate of full employment

Prospects for continued steady growth in oil production remain favourable, supported by the ramp up of production from oil sands projects completed over the past few years. A lack of market access remains a significant medium-term challenge, with the recent rejection of the Trans Mountain pipeline project by the Federal Court of Appeal likely to delay completion of that project by at least a year. Some near term relief to producers is likely with the completion of the Line 3 pipeline project in 2019. In the meantime, already record-high crude-by-rail shipments could push even higher as producers are forced to seek the costlier alternative.

On the flip side, prospects in other areas of the energy sector have brightened. Investment in energy has been gravitating to higher value-added conventional oil, including pentanes and condensates. Reinforcing this trend is a recent push by the provincial government to expand petrochemical investments through its petrochemical diversification program. Manufacturing intentions for chemicals and petroleum products have also surged on a year-over-year basis.

Although employment has surpassed its 2014 peak level, the job market up-turn has been centered around self-employment. More favourablly, interprovincial in-migration flows have moved into positive territory for three consecutive quarters, a trend that we expect will continue to gain traction. Further optimism has been seen in reductions in EI claims and rising average wages, which should translate into higher consumer spending. Despite a gradually brightening demand picture, Alberta's major residential and commercial real estate markets still face some notable headwinds, including excess supply and rising borrowing rates. As such, any recovery in this segment of the economy is expected to slow.

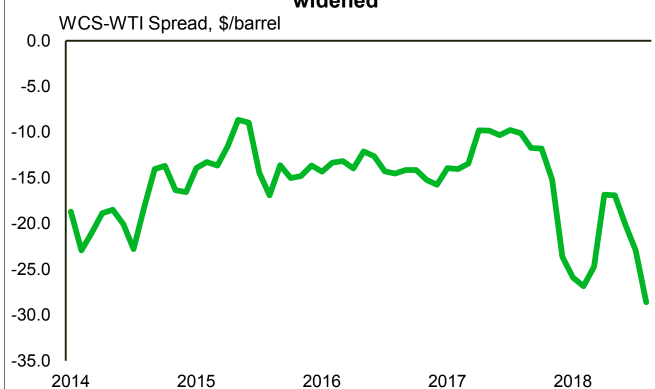
ALBERTA ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	2.4	2.3	2.0
Nominal GDP	5.0	4.5	4.5
Employment	1.8	1.4	1.5
Unemployment Rate (%)	6.6	6.2	6.0
Consumer Price Index	2.6	2.2	2.0
Retail Sales	3.5	5.3	4.5
Housing Starts (000's)	28.7	28.9	29.5
Existing Home Prices	-2.1	-0.7	2.0
Home Sales	-5.2	8.2	5.2

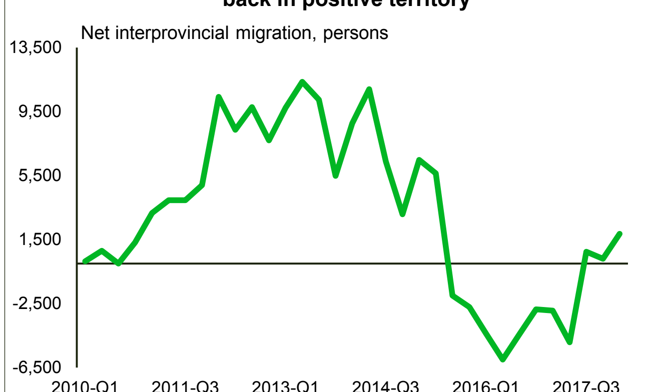
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

Chart 1: Alberta's heavy oil differential has widened



Source: Bloomberg, TD Economics

Chart 2: Alberta's net interprovincial migration back in positive territory



Source: Statistics Canada, TD Economics

SASKATCHEWAN

After turning in a solid 2.9% growth rate in 2017, Saskatchewan's economy is likely to record significantly weaker gains in 2018. Sub-par crop growing conditions and ongoing weakness in the province's uranium sector are two factors dampening activity this year. Prospects are looking better for 2019, however, supported by a recent firming in potash and crop prices as well as an expected pickup in energy-related construction activity.

Among the various headwinds, Saskatchewan's mining sector has experienced particular pressure from a global supply glut in the uranium market. The recent decision by the U.S. Commerce Department to probe uranium imports (from a national security lens) has exacerbated uncertainty in the sector. Earlier this summer, production halts were announced in the McArthur River mine, the country's largest uranium operation, causing a further drag on already-weak uranium production. The shutdown decision came with hundreds of permanent layoffs, both at the mine operation and the head office.

Employment in the province has struggled to gain traction this year, and remains below its pre-oil-shock peak. As a result, the unemployment rate, which had showed some promising signs earlier in the year, has since pulled back to an average of 6.5% over the past three months. This sluggish labour market performance is weighing on consumer spending, with retail sales up only 0.4% year-to-date relative to last year.

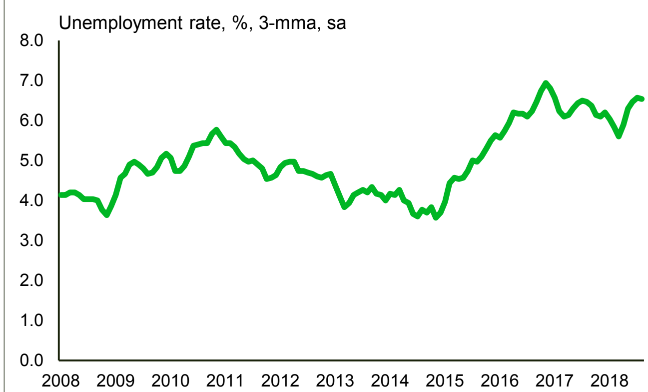
A soft labour market has also been of little help to the housing market. Since peaking in late-2014, resales have been in retreat for the past four years. The sales-to-listings ratio has been hovering below 40 (the typical threshold for buyer's market territory) for the past several months, keeping downward pressure on prices and construction actvity. This situation should turn a corner over the next year in tandem with the province's overall economic environment. A recent firming in the price outlook for a number of the province's key commodities, including potash, crops and WTI oil prices, provides reason for optimism on this front. Furthermore, within the oil market, the completion of the Line 3 pipeline expansion sometime in 2019 should provide some much-needed relief to recently-depressed heavy oil prices.

SASKATCHEWAN ECONOMIC FORECASTS
[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	1.4	2.0	1.8
Nominal GDP	4.0	4.5	4.4
Employment	0.1	1.0	0.7
Unemployment Rate (%)	6.3	6.0	5.7
Consumer Price Index	2.4	2.1	2.0
Retail Sales	1.7	4.0	3.7
Housing Starts (000's)	3.3	3.2	3.4
Existing Home Prices	-2.0	0.1	2.6
Home Sales	-3.1	8.9	6.4

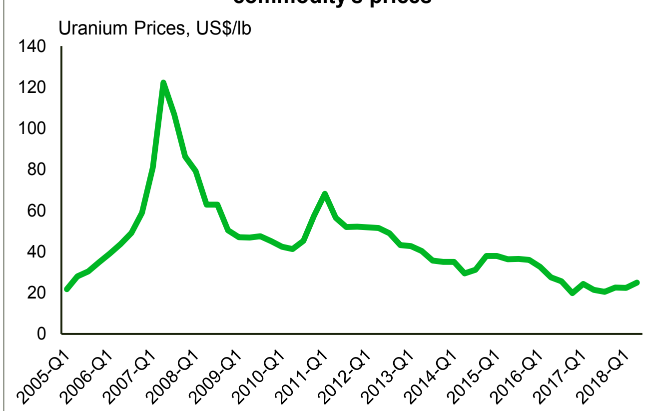
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

Chart 1:Saskatchewan's unemployment rate has been hovering above its historical average



Source: Statistics Canada,TD Economics

Chart 2: A uranium supply glut has depressed the commodity's prices



Source: Bloomberg, TD Economics

MANITOBA

After last year's above-trend performance, economic growth in Manitoba is on track to downshift significantly this year. This is consistent with the range of indicators pointing to softer growth, including retail and wholesale spending. Indeed, after a stellar 2017 showing, retail trade was flat in the first half of this year. Wholesalers haven't fared much better, with sales rising a meagre 1% over the same period. In the labour market, employment is up only modestly from its year-earlier level so far in 2018, while wage growth has decelerated. Conversely, manufacturers are enjoying a good year, with sales up 8% in the first half of 2018, boosted by non-durable shipments. All told, we expect growth to ease to 1.8% in 2018.

Several additional factors are restraining growth this year. For starters, agricultural production is unlikely to repeat last year's strong turnout in 2018, owing to abnormally dry growing conditions. Homebuilding, meanwhile, is also slowing after a busy 2017 in which builders pulled forward activity to beat the introduction of a new development fee. Home sales are also likely to fall this year, in part due to tighter lending conditions. Finally, major non-residential energy projects are winding down, dampening capital spending (though some offset will come from two new large-scale projects in the food manufacturing sector and investment in rail infrastructure by CN Rail).

Next year, we expect growth to hold close to 2018's pace, with higher interest rates likely to keep a lid on new housing construction. Home sales are projected to bounce-back after a weak 2018, but rising borrowing rates will restrain the increase. Meanwhile, non-residential spending should continue to ease from the elevated levels observed in recent years.

On the opposite end of the spectrum, growth next year will likely receive a notable boost from construction of Manitoba's portion of the Line 3 Replacement project. Additionally, solid U.S. demand is likely to continue boosting manufacturing next year, though growth stateside is poised to slow meaningfully in 2020. Finally, household spending will likely receive some lift from an increase in the basic personal tax exemption in 2019 with a further boost coming in 2020 owing to a 1 percentage point reduction in the PST to 7%.

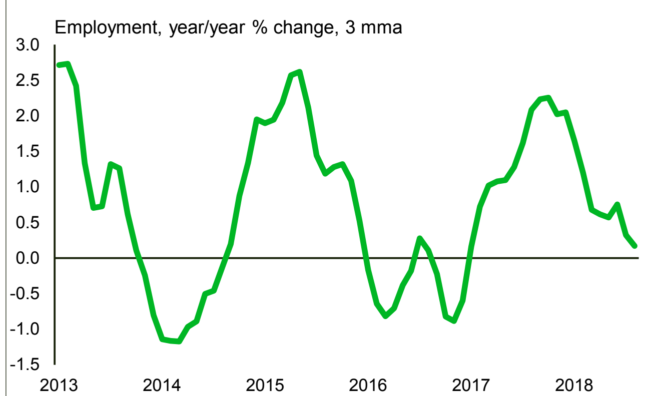
MANITOBA ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	1.8	1.8	1.7
Nominal GDP	3.9	4.0	3.7
Employment	0.5	0.9	0.6
Unemployment Rate (%)	5.9	5.6	5.5
Consumer Price Index	2.6	2.1	2.1
Retail Sales	1.0	4.7	3.7
Housing Starts (000's)	6.4	4.6	4.6
Existing Home Prices	1.6	3.2	4.0
Home Sales	-3.9	5.0	2.0

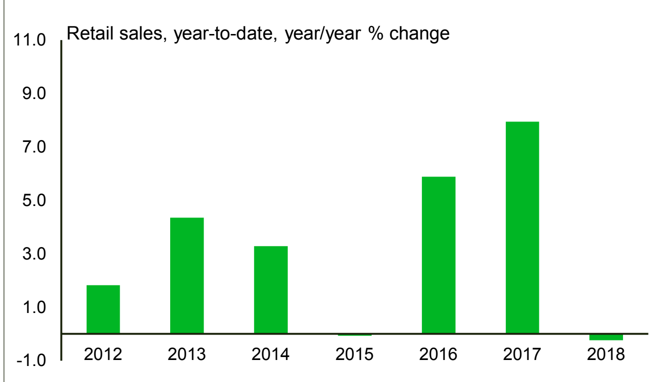
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

Chart 1: Manitoba employment growth



Source: Statistics Canada, TD Economics

Chart 2: Manitoba retail sales



Source: Statistics Canada, TD Economics

ONTARIO

Ontario's economy put in a good performance in the first half of 2018, with growth likely running at an above-trend annualized rate of 2.3%. Domestic spending has been the key driver of the expansion. Despite trade-related risks, businesses have been increasing investment in response to rising demand, tight labour markets and rising wages. Households have been lending a helping hand, though personal consumption has increased at a gentler pace compared to the previous year. We expect a similar rate of expansion in the low 2's to be sustained in the second half of 2018 and in 2019. The economy is expected to find further support from sturdy U.S. demand and improved housing activity. In 2020, some easing in real GDP gains is expected alongside softer growth stateside and intensifying capacity constraints.

One of the more notable developments of late surround Ontario's housing market, where signs of stabilization have been observed following a bout of B-20 induced weakness earlier in the year. Indeed, both home sales and prices have risen sharply in the past few months. The improvement has been concentrated in Toronto, where, pent-up demand is helping drive outsized sales growth. Going forward, sales and prices should continue expanding, though gains will be tempered by rising interest rates. On the supply side, an improved sales and price backdrop should support homebuilding, with starts likely to remain elevated during the 2019-2020 period.

Meanwhile, export growth has been muted this year, with some pain inflicted by U.S. steel tariffs on the industry and, though higher input costs, manufacturing more broadly. The prolonged NAFTA negotiations are another factor clouding the trade outlook. Our forecast assumes that a deal will ultimately be reached and that the US threat of tariffs on the auto sector will not see the light of day.

Despite ongoing economic growth, Ontario faces significant fiscal challenges, including an elevated net debt-to-GDP ratio of just under 40%. Once the audits of the province's books ordered by the new PC government are wrapped up in late September, a budget should be delivered soon thereafter. The provincial government campaigned on tax cuts for households and businesses, which would be growth supportive. However, offsetting program spending cuts are a strong possibility, which would dampen the outlook.

ONTARIO ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

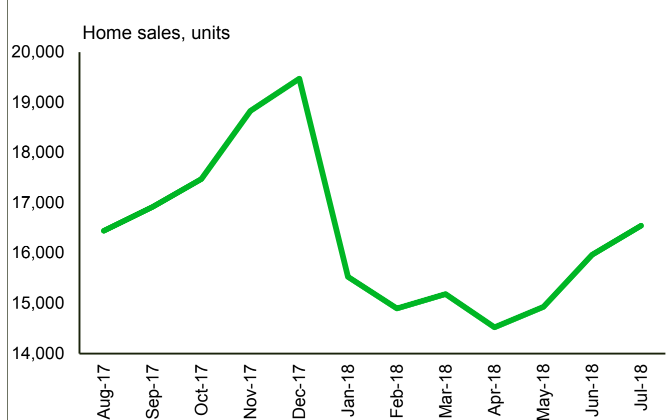
	2018	2019	2020
Real GDP	2.2	2.2	1.7
Nominal GDP	4.3	4.3	3.5
Employment	1.4	0.6	0.5
Unemployment Rate (%)	5.6	5.9	6.0
Consumer Price Index	2.4	2.2	2.1
Retail Sales	3.5	4.1	4.3
Housing Starts (000's)	77.5	75.4	78.6
Existing Home Prices	-1.7	6.0	3.4
Home Sales	-12.1	12.5	2.0

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

Chart 1: Ontario job vacancy rate

Source: Statistics Canada, TD Economics

Chart 2: Ontario home sales



Source: CREA, TD Economics

QUÉBEC

After slowing temporarily to 1.8% in the first quarter, growth in the province appears to have rebounded to around 3% in the second quarter, leaving the average pace of expansion in the first half at a healthy 2.3% annualized rate. The better-than-expected first half performance was driven by firm growth in business investment, abetted by more modest gains in household spending. Looking ahead, the economy should retain its solid momentum in the second half of the year, stoked by healthy domestic conditions. However, with the economy bumping up against capacity constraints and borrowing costs set to rise further, growth will likely downshift to a slower 2.0% rate in 2019.

Housing markets have outperformed in Quebec. Indeed, both sales and prices increased in the second quarter – bucking the nation-wide trend. Solid demand and price growth has supported elevated new home construction this year. However, rising interest rates should slow home-building in 2019. In the non-residential sector, a number of ongoing major projects – such as the Réseau express métropolitain, the Romaine Complex and the Turcot Interchange – should boost spending during 2018/2019. However, several of these projects are slated to reach substantial completion by 2020.

Solid U.S. demand has supported exports. Despite the negative impact on the aluminum industry of the imposition of steel and aluminum tariffs, data thus far has been somewhat encouraging. Aluminum products shipments to the U.S. were up 7% year-over-year as of July. Meanwhile, the provincial government has pledged some $863 million in support over 5 years to steel and aluminum producers, providing offsetting support. An additional layer of uncertainty stems from the ongoing NAFTA negotiations, though we remain hopeful for a near-term resolution. Having said that, potential concessions made on the part of the Canadian government with respect to supply management would introduce some downside risk to the province's agricultural sector.

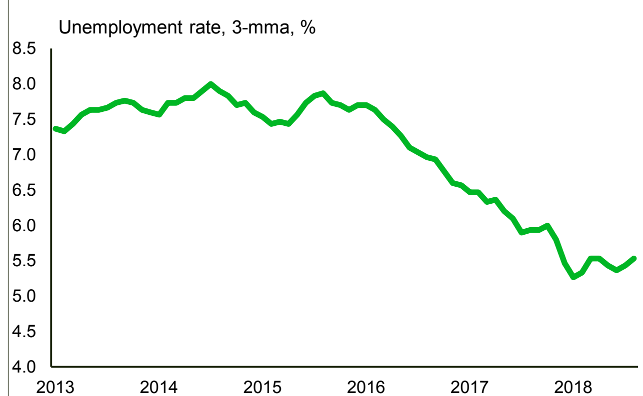
Fiscal stability has supported the economy's solid performance, with the government's commitment to debt reduction boosting confidence and helping to sustain Quebec's longer-term borrowing rate below that of neighbouring Ontario. Despite the Liberal government's success in reducing the province's debt, the party trails the Coalition Avenir Quebec (CAQ) in polling heading into the October 1st election.

QUEBEC ECONOMIC FORECASTS
[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	2.5	2.0	1.5
Nominal GDP	4.2	4.2	3.4
Employment	0.9	0.5	0.3
Unemployment Rate (%)	5.5	5.5	5.7
Consumer Price Index	1.9	1.9	1.8
Retail Sales	4.0	3.6	3.0
Housing Starts (000's)	47.1	44.6	44.7
Existing Home Prices	4.8	4.1	3.1
Home Sales	5.5	5.0	0.8

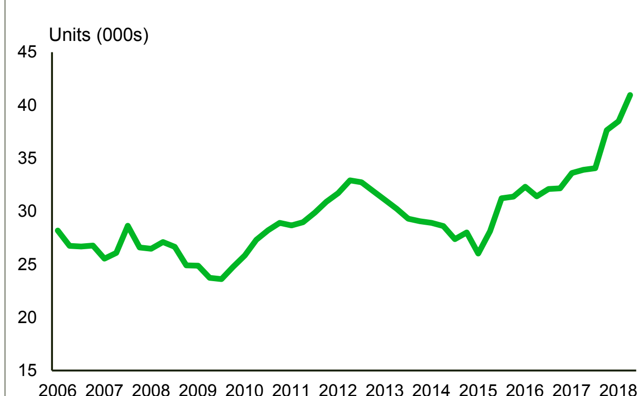
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

Chart 1: Québec unemployment rate



Source: Statistics Canada, TD Economics

Chart 2: Québec new homes under construction



Source: CMHC, TD Economics

NEW BRUNSWICK

New Brunswick's economic growth is expected to moderate this year to 1.0%. An expanding service-sector, rising exports, and continued gains in consumer spending are expected to keep the province's growth rate in positive territory in 2018 and over the forecast horizon, though the pace will continue to be limited by an aging population and negligible labour force growth.

On the labour market front, the unemployment rate has been on a fairly steady downward track over the past several years and at just over 8%, sits close to its pre-recession average. Efforts to increase migration have resulted in higher levels of international migrants, but this acted to slow but not reverse the longer term decline in the province's working-age population.

Still, the increase in migration appears to be providing support to the housing sector. Owing to a recent pickup in housing demand, existing home prices are on track to grow by about 6% in 2018. This healthy performance was matched by a high level of residential investment. Indeed, housing starts hovered 20% above their year-ago levels in the first eight months of this year. Retail sales have struggled to grow significantly in 2018, but we expect a sturdier pace of expansion to be recorded next year.

Meanwhile, the province's export sector should continue to expand over the near term, with wood and forestry products as well as mining products benefitting from strengthening global commodity prices and robust U.S. demand. CETA implementation, which has helped increase access of Canadian exports to European markets, should help compound this effect. While uncertainty around NAFTA remains a headwind given the province's high exposure to the U.S. market, resolution to the negotiations would represent an upside to this outlook.

Adding some further optimism is the province's attractiveness for business centers, with several more planned this year for financial services and airline companies. The investments should add further support the New Brunswick economy over the next two years.

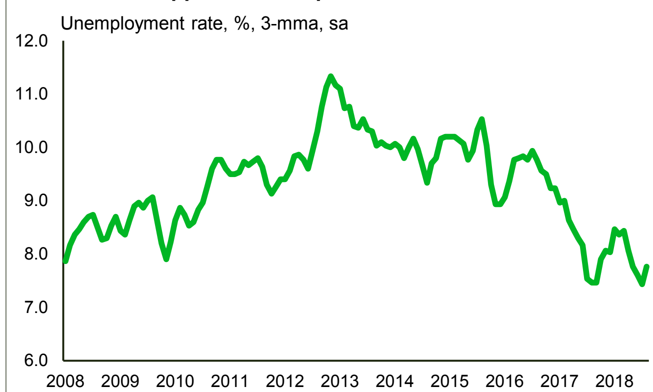
NEW BRUNSWICK ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	1.0	1.1	1.0
Nominal GDP	3.0	3.4	3.0
Employment	0.3	-0.1	0.1
Unemployment Rate (%)	8.0	8.1	8.1
Consumer Price Index	2.3	1.9	1.9
Retail Sales	0.4	2.6	2.2
Housing Starts (000's)	1.9	1.8	1.8
Existing Home Prices	6.1	5.3	3.2
Home Sales	-0.6	0.6	-1.5

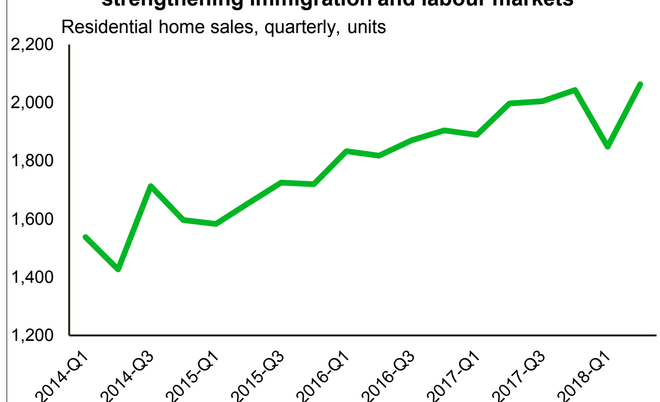
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

Chart 1: New Brunswick unemployment rate approaches its pre-recession lows



Source: Statistics Canada, TD Economics

Chart 2: New Brunswick housing supported by strengthening immigration and labour markets



Source: Canadian Real Estate Association, TD Economics

NOVA SCOTIA

Nova Scotia's economy continues to expand at a moderate pace. In the first eight months of 2018, employment increased 1.3% from its year earlier level. Amid steady job growth, retail trade advanced a solid 3.7% in the first half of this year – roughly matching the nation-wide pace. Manufacturing activity has also been expanding at a healthy rate, with sales up considerably the first half. On the other hand, the shutdown of production at a major offshore natural gas facility coupled with the completion of a major-energy sector project should weigh on growth in 2018. On balance, these trends point to GDP growth of 1.1% this year, about the same pace as 2017. Looking ahead, the economy is likely to grow at around the same pace in 2019, before some slowing takes place in 2020.

In terms of positives, healthy U.S. demand and continued growth in China should underpin further gains in exports and manufacturing shipments this year. However, some easing is anticipated going forward, particularly in 2020, in tandem with slower U.S. growth. Manufacturing activity should also be supported by large-scale shipbuilding in Halifax, where concerns of a strike were put to rest through the ratification of a new four year collective agreement in June. Notably, activity in the tourism sector is strong, building on a record year in 2017. For instance, over 320,000 cruise ship passengers are expected this year in Halifax, up from 2017.

Also in the plus column, the province's population continues to expand around the fastest pace seen in nearly three decades. This is buoying homebuilding, with starts likely to surpass last year's elevated level in 2018. Healthy population growth is also supporting housing demand, with home sales and prices on track for gains this year. However, rising borrowing costs should slow home sales and dampen price growth in 2019 and 2020.

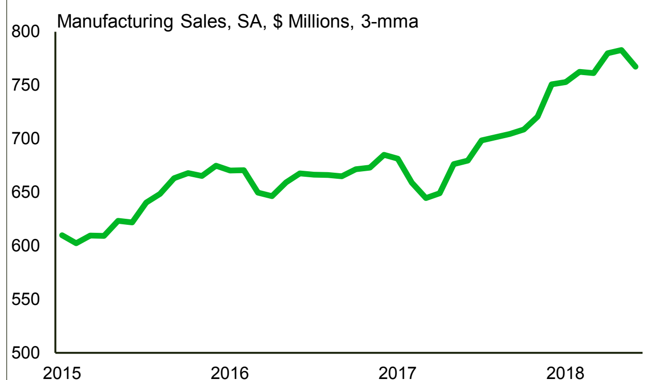
On the opposite end of the spectrum, the winding down of the Maritime Link project will be a major drag on non-residential spending. Meanwhile, the shuttering of the Deep Panuke and Sable natural gas projects will weigh on output going forward, though some offset will come from their decommissioning. Finally, in order to maintain a healthy fiscal position, the provincial government plans on restraining spending growth this fiscal year and next.

NOVA SCOTIA ECONOMIC FORECASTS
[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	1.1	1.2	0.9
Nominal GDP	2.8	3.1	2.6
Employment	1.2	0.1	0.1
Unemployment Rate (%)	7.8	8.1	8.1
Consumer Price Index	2.3	2.1	1.8
Retail Sales	2.1	3.2	2.6
Housing Starts (000's)	4.6	3.6	3.7
Existing Home Prices	3.4	3.0	2.5
Home Sales	7.8	3.4	0.3

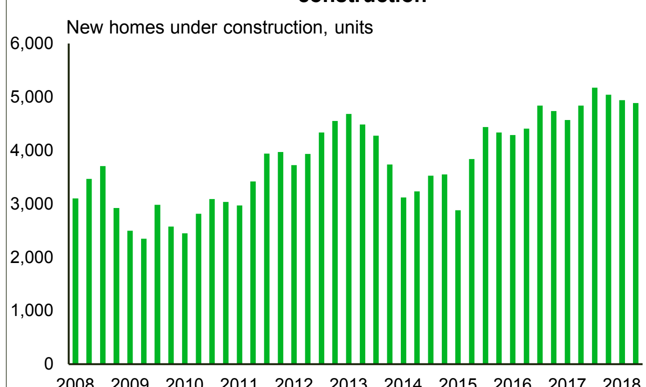
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

Chart 1: Nova Scotia manufacturing sales



Source: Statistics Canada, TD Economics

Chart 2: Nova Scotia new homes under construction



Source: CMHC, TD Economics

PRINCE EDWARD ISLAND

PEI's population continues to advance at a strong pace. In turn, these population increases are providing a solid backdrop to economic growth, with real GDP projected to expand at a healthy 2.2% rate this year, followed by a slower, but still-solid 1.7% pace in 2019.

Although immigration has been the driving force behind population growth, it's possible that the number of newcomers from other countries is being overstated. Indeed, the provincial government has pledged to review all of its immigration programs in the wake of two large-scale immigration fraud investigations. However, even when we account for the possibility that the number of international immigrants is actually less than what's been recorded, population growth in the province has still run at a faster pace than the country as a whole since the end of 2015.

The growing number of residents is helping to sustain elevated levels of home sales and starts, though both are down from their post-crisis peaks achieved in 2017. Home price growth has been strong amid tight markets, causing a deterioration in affordability. Peering ahead, after a brief foray into negative territory this year, we expect both sales and starts to resume their upward trend in 2019, bolstered by ongoing economic growth.

Although housing activity has lost a touch of momentum so far this year, retail spending has forged ahead at a rapid clip. Job growth has also given a lift to household spending, with employment up strongly in the first 8 months of the year, compared to the same period in 2017. Looking ahead, retail spending should ease in 2019 and 2020 after solid growth this year, tempered by rising borrowing costs.

The province's tourism industry remains strong, with the number of room-nights sold and overnight stays down only slightly from their record 2017 level. Going forward, firm U.S. and Canadian growth should keep the industry growing at a healthy rate.

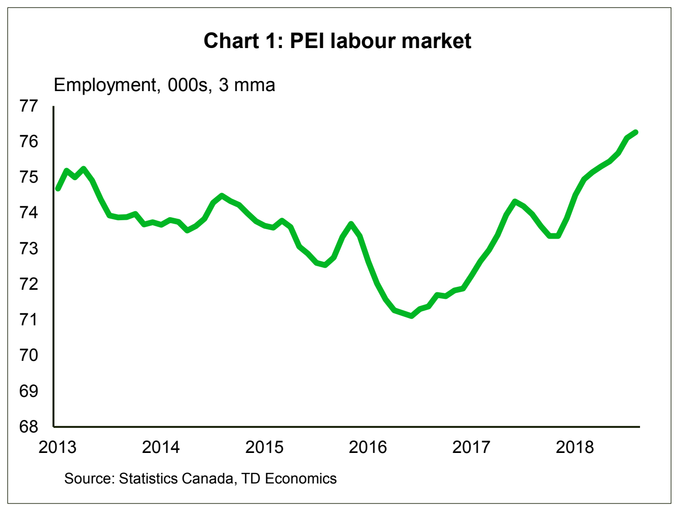
Despite continued trade policy uncertainty, 2018 is turning out to be a decent year for PEI's manufacturers, with the value of shipments up 5% in the first half, just above the national rate. Sales should be boosted by healthy U.S. demand next year, before easing in line with U.S. GDP growth in 2020.

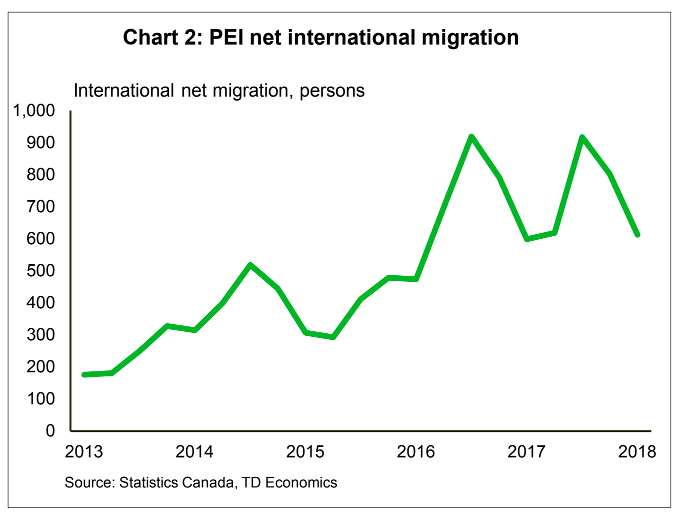
P.E.I. ECONOMIC FORECASTS

[Annual average % change, unless otherwise noted]

	2018	2019	2020
Real GDP	2.2	1.7	1.2
Nominal GDP	4.3	3.7	3.2
Employment	2.8	0.1	0.1
Unemployment Rate (%)	9.7	9.6	9.6
Consumer Price Index	2.5	2.2	1.9
Retail Sales	4.4	4.0	3.4
Housing Starts (000's)	0.8	0.8	0.9
Existing Home Prices	6.3	4.1	2.8
Home Sales	-9.3	9.5	5.5

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





NEWFOUNDLAND & LABRADOR

After last year's unexpectedly strong performance, Newfoundland and Labrador's economy is set to post disappointing growth this year. The marked slowdown in 2018 will be driven by a continued shift from construction to production stages in large scale projects, including the Hebron oil field and the Muskrat Falls dam, reducing the impetus to growth from business investment.

Meanwhile, the province's unemployment rate remains the highest among the provinces. Momentum in employment saw some improvement in August, with year-over-year job growth accelerating to 2.7%. On average, however, the year will likely only post a modest 0.2% uptick, leaving the unemployment rate hovering above 14%. With the completion of large construction projects and few industries stepping up to take up the slack, the job market is expected to struggle to gain traction.

Faced by these labour market challenges, the province's housing market is likely to remain an underperformer. Year-to-date home sales came 1.3% lower than last year. With steady declines in the population, the historically-low sales-to-listings ratio of 33 is keeping the market in buyer's territory.

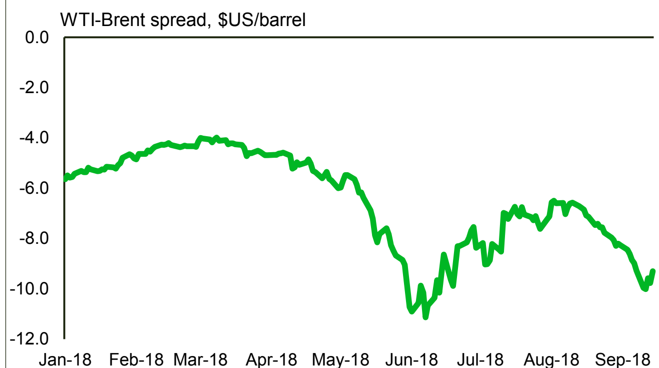
On the bright side, the province has recently benefited from rising oil prices – with the Hebron oilfield adding some upside to 2019 and 2020 as it ramps up production. With its offshore oil priced against the Brent benchmark, a widening differential to WTI is an added bonus. Brent prices have jumped more than 10% since the beginning of the year, with futures contracts still suggesting that the spread will remain elevated.

Going forward, increased oil production, signs of prospective exploration work in the Flemish Pass Basin and promising mining projects are expected to fuel renewed growth in 2019 and 2020. Still, the pace is not expected to be strong enough to put a significant dent in the unemployment rate. Longer-term barriers to growth remain the province's weak demographics, heavy reliance on resource extraction activities and the province's weak fiscal position.

NFLD & LABRADOR ECONOMIC FORECASTS [Annual average % change, unless otherwise noted]	2018	2019	2020
Real GDP	-0.3	1.9	2.0
Nominal GDP	3.6	4.4	4.3
Employment	0.2	0.0	0.1
Unemployment Rate (%)	14.6	15.0	15.0
Consumer Price Index	2.0	2.0	2.0
Retail Sales	-1.9	3.0	2.9
Housing Starts (000's)	1.5	1.2	1.1
Existing Home Prices	-1.5	1.4	2.0
Home Sales	-4.1	4.3	0.7

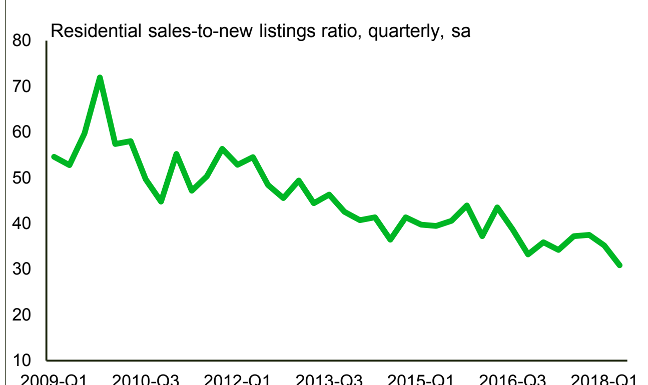
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics

Chart 1: WTI-Brent spread to benefit Newfoundland & Labrador



Source: Bloomberg, TD Economics

Chart 2: Newfoundland & Labrador's sales/listings ratio at historic lows



Source: Canadian Real Estate Association, TD Economics

PROVINCIAL ECONOMIC FORECASTS

REAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change						
	2015	2016	2017	2018F	2019F	2020F
CANADA	1.0	1.4	3.0	2.2	2.2	1.7
N. & L.	-1.7	1.9	2.1	-0.3	1.9	2.0
P.E.I.	1.3	2.3	3.2	2.2	1.7	1.2
N.S.	1.4	0.8	1.2	1.1	1.2	0.9
N.B.	2.4	1.2	1.9	1.0	1.1	1.0
Québec	1.0	1.4	3.0	2.5	2.0	1.5
Ontario	2.9	2.6	2.7	2.2	2.2	1.7
Manitoba	1.3	2.2	2.9	1.8	1.8	1.7
Sask.	-1.0	-0.5	2.9	1.4	2.0	1.8
Alberta	-3.7	-3.7	4.9	2.4	2.3	2.0
B.C.	3.5	3.5	3.9	2.4	2.2	2.0

F: Forecast by TD Economics as at September 2018.

Source: Statistics Canada / Haver Analytics

NOMINAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change						
	2015	2016	2017	2018F	2019F	2020F
CANADA	0.2	2.0	5.4	4.3	4.4	3.7
N. & L.	-11.5	2.6	5.7	3.6	4.4	4.3
P.E.I.	3.9	4.0	5.0	4.3	3.7	3.2
N.S.	2.1	2.8	2.7	2.8	3.1	2.6
N.B.	2.0	3.6	4.4	3.0	3.4	3.0
Québec	2.4	2.7	5.1	4.2	4.2	3.4
Ontario	5.0	4.3	4.5	4.3	4.3	3.5
Manitoba	3.3	2.3	4.6	3.9	4.0	3.7
Sask.	-5.4	-4.0	6.4	4.0	4.5	4.4
Alberta	-12.0	-4.9	8.2	5.0	4.5	4.5
B.C.	4.0	4.8	6.2	4.6	4.3	3.7

F: Forecast by TD Economics as at September 2018.

Source: Statistics Canada / Haver Analytics

EMPLOYMENT Annual average per cent change						
	2015	2016	2017	2018F	2019F	2020F
CANADA	0.9	0.7	1.9	1.1	0.6	0.6
N. & L.	-1.0	-1.4	-3.7	0.2	0.0	0.1
P.E.I.	-0.9	-2.2	2.9	2.8	0.1	0.1
N.S.	0.1	-0.4	0.7	1.2	0.1	0.1
N.B.	-0.5	-0.1	0.4	0.3	-0.1	0.1
Québec	1.0	0.9	2.2	0.9	0.5	0.3
Ontario	0.7	1.1	1.8	1.4	0.6	0.5
Manitoba	1.5	-0.5	1.6	0.5	0.9	0.6
Sask.	0.6	-0.9	-0.1	0.1	1.0	0.7
Alberta	1.2	-1.6	1.0	1.8	1.4	1.5
B.C.	1.3	3.1	3.7	0.5	0.6	0.5

F: Forecast by TD Economics as at September 2018.

Source: Statistics Canada / Haver Analytics

UNEMPLOYMENT RATE Annual, per cent						
	2015	2016	2017	2018F	2019F	2020F
CANADA	6.9	7.0	6.3	5.9	6.0	6.0
N. & L.	12.8	13.4	14.7	14.6	15.0	15.0
P.E.I.	10.4	10.8	9.9	9.7	9.6	9.6
N.S.	8.6	8.4	8.4	7.8	8.1	8.1
N.B.	9.7	9.6	8.1	8.0	8.1	8.1
Québec	7.6	7.0	6.0	5.5	5.5	5.7
Ontario	6.8	6.6	6.0	5.6	5.9	6.0
Manitoba	5.6	6.2	5.4	5.9	5.6	5.5
Sask.	5.0	6.4	6.3	6.3	6.0	5.7
Alberta	6.0	8.1	7.8	6.6	6.2	6.0
B.C.	6.1	6.0	5.1	5.0	5.0	5.2

F: Forecast by TD Economics as at September 2018.

Source: Statistics Canada / Haver Analytics

CONSUMER PRICE INDEX (CPI) Annual average per cent change						
	2015	2016	2017	2018F	2019F	2020F
CANADA	1.1	1.4	1.6	2.4	2.2	2.1
N. & L.	0.4	2.7	2.4	2.0	2.0	2.0
P.E.I.	-0.6	1.2	1.8	2.5	2.2	1.9
N.S.	0.4	1.2	1.1	2.3	2.1	1.8
N.B.	0.5	2.2	2.3	2.3	1.9	1.9
Québec	1.1	0.7	1.1	1.9	1.9	1.8
Ontario	1.2	1.8	1.7	2.4	2.2	2.1
Manitoba	1.2	1.3	1.6	2.6	2.1	2.1
Sask.	1.6	1.1	1.7	2.4	2.1	2.0
Alberta	1.2	1.1	1.5	2.6	2.2	2.0
B.C.	1.1	1.9	2.1	2.7	2.2	2.1

F: Forecast by TD Economics as at September 2018.

Source: Statistics Canada / Haver Analytics

RETAIL TRADE Annual average per cent change						
	2015	2016	2017	2018F	2019F	2020F
CANADA	2.6	5.2	7.1	3.2	4.1	3.8
N. & L.	0.7	0.4	2.4	-1.9	3.0	2.9
P.E.I.	2.6	7.3	6.3	4.4	4.0	3.4
N.S.	0.2	4.7	7.8	2.1	3.2	2.6
N.B.	2.2	2.1	6.8	0.4	2.6	2.2
Québec	1.9	6.6	5.5	4.0	3.6	3.0
Ontario	5.3	6.9	7.7	3.5	4.1	4.3
Manitoba	1.3	3.7	7.8	1.0	4.7	3.7
Sask.	-3.3	1.5	4.1	1.7	4.0	3.7
Alberta	-4.0	-1.1	7.1	3.5	5.3	4.5
B.C.	7.0	7.7	9.3	3.2	4.2	3.3

F: Forecast by TD Economics as at September 2018.

Source: Statistics Canada / Haver Analytics

PROVINCIAL ECONOMIC FORECASTS

HOUSING STARTS Thousands of units	2015	2016	2017	2018F	2019F	2020F
CANADA	193.6	197.9	220.3	212.5	198.0	201.9
N. & L.	1.8	1.6	1.4	1.5	1.2	1.1
P.E.I.	0.5	0.5	1.0	0.8	0.8	0.9
N.S.	3.9	3.7	4.0	4.6	3.6	3.7
N.B.	1.9	1.8	2.3	1.9	1.8	1.8
Québec	36.7	38.6	46.1	47.1	44.6	44.7
Ontario	69.0	74.8	80.1	77.5	75.4	78.6
Manitoba	5.6	5.3	7.6	6.4	4.6	4.6
Sask.	5.2	4.8	5.0	3.3	3.2	3.4
Alberta	37.5	24.6	29.3	28.7	28.9	29.5
B.C.	31.5	42.1	43.5	40.7	33.8	33.6

F: Forecast by TD Economics as at September 2018.
Source: CMHC / Haver Analytics

HOUSING STARTS Per cent change	2015	2016	2017	2018F	2019F	2020F
CANADA	2.4	2.2	11.3	-3.5	-6.8	2.0
N. & L.	-18.1	-15.9	-10.1	8.3	-23.2	-6.5
P.E.I.	3.7	0.0	80.6	-16.4	1.5	4.5
N.S.	26.2	-4.2	9.4	12.5	-20.1	3.0
N.B.	-16.1	-5.0	22.9	-14.2	-9.0	3.2
Québec	-6.2	5.3	19.4	2.1	-5.3	0.1
Ontario	17.8	8.5	7.1	-3.3	-2.7	4.2
Manitoba	-10.2	-4.5	43.6	-15.3	-29.0	0.5
Sask.	-37.6	-6.0	2.4	-33.9	-1.3	6.6
Alberta	-7.5	-34.5	19.3	-2.2	0.8	1.9
B.C.	11.4	33.7	3.4	-6.4	-16.9	-0.8

F: Forecast by TD Economics as at September 2018.
Source: CMHC / Haver Analytics

EXISTING HOME SALES Thousands of units	2015	2016	2017	2018F	2019F	2020F
CANADA	510.7	540.8	516.3	465.6	507.0	515.2
N. & L.	4.2	4.1	3.9	3.8	3.9	3.9
P.E.I.	1.7	2.1	2.1	1.9	2.1	2.3
N.S.	9.4	10.1	10.6	11.4	11.8	11.9
N.B.	6.7	7.4	7.9	7.9	7.9	7.8
Québec	74.1	78.1	82.6	87.2	91.5	92.3
Ontario	226.2	245.4	222.0	195.1	219.6	223.9
Manitoba	14.0	14.5	14.4	13.9	14.6	14.8
Sask.	12.0	11.3	11.1	10.7	11.7	12.4
Alberta	59.3	54.8	57.2	54.2	58.6	61.6
B.C.	102.5	112.2	103.8	79.3	85.3	84.2

F: Forecast by TD Economics as at September 2018.
Source: Canadian Real Estate Association

EXISTING HOME SALES Per cent change	2015	2016	2017	2018F	2019F	2020F
CANADA	5.4	5.9	-4.5	-9.8	8.9	1.6
N. & L.	2.2	-3.9	-4.0	-4.1	4.3	0.7
P.E.I.	19.1	22.2	4.2	-9.3	9.5	5.5
N.S.	3.4	7.7	4.8	7.8	3.4	0.3
N.B.	6.5	11.1	6.9	-0.6	0.6	-1.5
Québec	5.0	5.4	5.7	5.5	5.0	0.8
Ontario	9.7	8.5	-9.6	-12.1	12.5	2.0
Manitoba	1.7	3.8	-0.8	-3.9	5.0	2.0
Sask.	-10.8	-5.6	-2.5	-3.1	8.9	6.4
Alberta	-21.0	-7.6	4.3	-5.2	8.2	5.2
B.C.	21.9	9.5	-7.5	-23.6	7.7	-1.3

F: Forecast by TD Economics as at September 2018.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE Thousands of C$	2015	2016	2017	2018F	2019F	2020F
CANADA	441.0	487.1	506.0	487.7	512.4	526.8
N. & L.	277.0	257.8	251.7	248.1	251.6	256.7
P.E.I.	164.0	178.9	204.0	216.9	225.8	232.1
N.S.	218.7	221.7	229.0	236.8	243.9	250.1
N.B.	159.2	161.0	165.7	175.9	185.1	191.0
Québec	271.9	280.5	292.9	307.0	319.4	329.2
Ontario	460.7	531.1	578.3	568.4	602.2	622.9
Manitoba	268.2	276.3	285.7	290.2	299.6	311.6
Sask.	301.2	299.0	292.6	286.7	287.0	294.5
Alberta	393.7	395.0	395.9	387.5	384.9	392.6
B.C.	637.2	681.3	704.6	712.5	729.9	749.2

F: Forecast by TD Economics as at September 2018.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE Per cent change	2015	2016	2017	2018F	2019F	2020F
CANADA	8.2	10.4	3.9	-3.6	5.1	2.8
N. & L.	-2.9	-6.9	-2.4	-1.5	1.4	2.0
P.E.I.	-1.1	9.1	14.0	6.3	4.1	2.8
N.S.	2.0	1.4	3.3	3.4	3.0	2.5
N.B.	-1.1	1.1	2.9	6.1	5.3	3.2
Québec	1.4	3.1	4.4	4.8	4.1	3.1
Ontario	7.4	15.3	8.9	-1.7	6.0	3.4
Manitoba	1.3	3.0	3.4	1.6	3.2	4.0
Sask.	-0.6	-0.7	-2.1	-2.0	0.1	2.6
Alberta	-2.0	0.3	0.2	-2.1	-0.7	2.0
B.C.	11.7	6.9	3.4	1.1	2.4	2.6

F: Forecast by TD Economics as at September 2018.
Source: Canadian Real Estate Association

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