Provincial Economic Forecast

External Backdrop Drives More Cautious 2020 View

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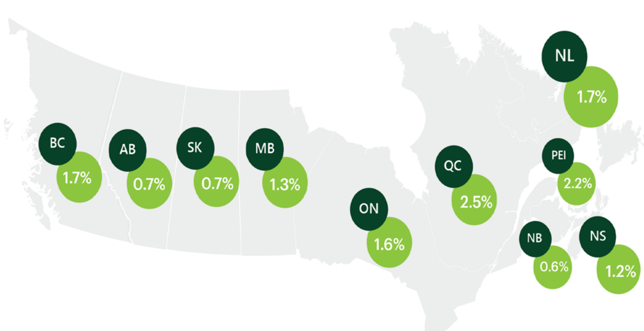
- As we expected, provincial economies have rebounded following an exceptionally weak start to the year. In light of this, economies remain on track to expand modestly this year, running from a low of 0.6% in New Brunswick to a high of 2.5% in Quebec in 2019.
- The external backdrop has worsened over the summer, with mounting global trade tensions prompting some modest downgrades to our 2020 growth forecasts. These revisions have largely been concentrated in trade and business investment. Related uncertainty and subdued global commodity conditions will continue to cloud the outlook for the Prairies.
- Quebec's economy remains in very good shape, evidenced by a robust first half performance and supported by ongoing fiscal stimulus and strong housing markets. In contrast, Ontario is benefitting from a firming in housing activity, but its debt-laden households and slower growth in government spending pose near-term constraints. Downside risks stemming from external headwinds have also risen for both provinces given their heavy manufacturing presence.
- Following a housing-driven moderation this year, British Columbia's economy is expected to top the provincial leaderboard next year, led by robust job markets and strength in non-residential investment. A continued recovery in housing activity will act as a further near-term tailwind to the province's expansion.
- In Alberta, early signs of improvement were seen across the board in the second quarter, but lower growth in oil production and dampened confidence leave us with a still-cautious 0.7% estimate for the province in 2019. Prospects for 2020 have been downgraded on the back of an extension in the province's curtailment plan. Lackluster commodity prices, Chinese agricultural export restrictions, and negative interprovincial migration are weighing on Saskatchewan's prospects. After a weak 2019, some acceleration is anticipated in Manitoba, lifted by improved housing market activity.
- The outlook is mixed in Atlantic Canada. Robust population growth is fueling strength in PEI and supporting a decent outturn in Nova Scotia. Growth in New Brunswick is expected to remain modest, and Newfoundland & Labrador will receive a boost from oil production and construction projects in the short term but will continue to be constrained by challenging demographics.

Provincial Real GDP Growth Forecast (2019)



Source: TD Economics. Forecast as of September 2019.

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

British Columbia

Despite a slump in housing activity that dragged into the early part of 2019, British Columbia's economic expansion is still on track for a decent showing this year. Other industries – notably non-residential construction and high-tech services – have taken up the slack left by declining housing-related spending. And with housing markets recently showing signs of firming, B.C.'s economy is anticipated to return to the top of the provincial leaderboard in 2020.

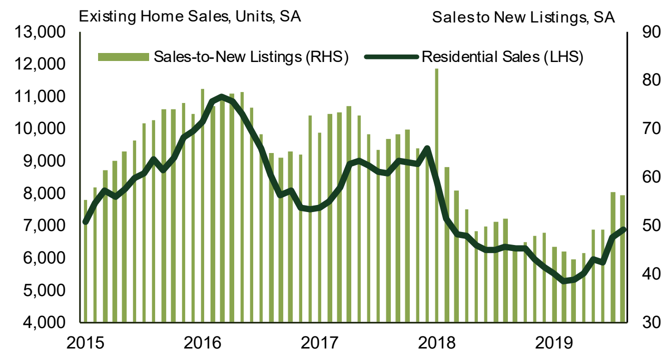
B.C.'s housing markets now appear to be turning the corner following an extended adjustment that began in early 2018 (Chart 1). Existing home sales jumped 7% (q/q) in the second quarter and started the third quarter on even stronger footing. As a result, markets, including that of the Greater Vancouver Area, are now roughly in balanced territory. This performance, combined with a lower-than-expected borrowing rates, have prompted an upward revision to our sales and price forecasts, though only moderate in light of still-weak affordability.

British Columbia recently lost its shine as the holder of the country's lowest unemployment rate to Quebec. Still, the province's labour markets remain healthy by virtually all measures. Job growth is running at a strong 3.4% (year-to-date y/y), wages are rising at a solid 4.2% y/y rate and the job vacancy rate remains the highest in the country. This, alongside a modest recovery in housing markets, will help support solid household spending in the near term.

We remain constructive on prospects for non-residential construction activity. B.C. topped the country this year in terms of growth in capital investment intentions. Moreover, the value of non-residential building permits (namely commercial office space, retail complex buildings, and institutional buildings) is up 50% (ytd y/y), while figures on monthly construction investment show a corresponding surge in nominal and real non-residential structures (Chart 2). Final investment decisions on large-scale investment projects, including LNG Canada and the associated pipeline, are poised to contribute positively to growth over the longer term.

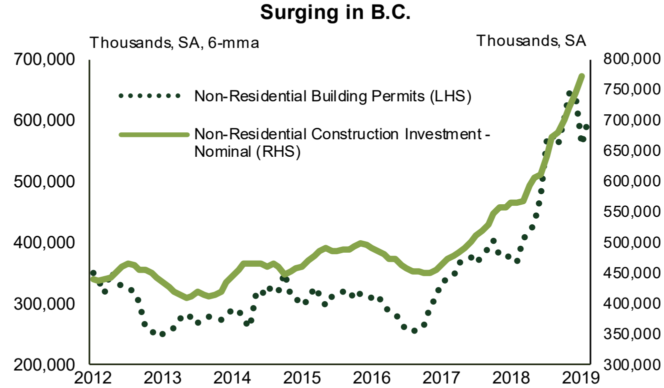
Despite these growth tailwinds, B.C.'s export-oriented industries on the whole are likely to face a challenging environment in the coming quarters amid moderating growth in China, uncertainty linked to elevated trade tensions, and the unresolved issues within its forestry sector.

Chart 1: B.C.'s Housing Markets Have Picked Up



Source: CREA, TD Economics

Chart 2: Non-Residential Construction Investment Surging in B.C.



Source: Statistics Canada, TD Economics

British Columbia Economic Forecasts [Annual average % change, unless otherwise noted]			
	2019	2020	2021
Real GDP	1.7	2.0	2.0
Nominal GDP	4.5	4.2	4.0
Employment	2.8	0.7	0.6
Unemployment Rate (%)	4.7	4.7	4.7
Housing Starts (000's)	47.1	36.9	36.1
Existing Home Prices	-2.8	5.3	2.7
Home Sales	-4.4	16.5	4.6

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

Alberta

Alberta's economy is unfolding broadly as we had expected in our previous forecast in June. Business and consumer confidence have improved from the early-year lows, suggesting that the worst is in the rear-view mirror. However, with the improvement only modest in scope, the province's economy is set to essentially tread water this year. Our 2020 growth forecast has been modestly downgraded to 1.7% in light of the recently-announced extension of the Province's oil output curtailment plan into next year.

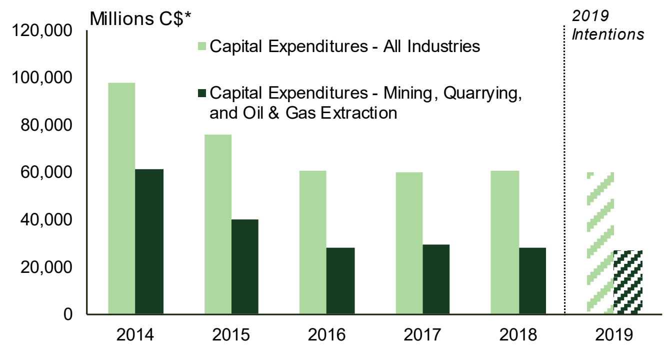
Mandatory output curtailment in the oilpatch has led to a sustained improvement in heavy oil prices, with the WCS-WTI spread projected to hold at relatively narrow levels through next year. Benchmark WTI prices are also expected to keep relatively stable at around US$55-60 per barrel in view of opposing risks – i.e., lackluster global oil demand and worries of strong non-OPEC production on the downside and increased geo-political risk premia following the recent attack on Saudi Arabia's largest oil processing facility on the upside.

Despite improving heavy oil conditions, uncertainty still dominates the outlook for the energy sector, limiting next year's projected rebound in growth. Oil transportation capacity constraints remain unresolved, as major pipeline proposals continue to confront legal challenges. Oilfield support services and rig counts have remained under pressure in recent months, while the province has not recorded any meaningful growth in all-industry and oil-sector-specific capital spending since 2014 (Chart 1).

Meanwhile, conditions in the province's labour markets remain subdued. Net hiring has been positive but not sufficient to put a dent in the unemployment rate. In response, households have continued to keep a tight grip on their wallets. One bright spot is the recent upturn in provincial home sales, which has helped to bring Alberta's major markets into better balance. The recent return to positive net interprovincial migration flows, the upward trend in population growth (Chart 2), and reduced borrowing costs are likely to support continued improvements going forward.

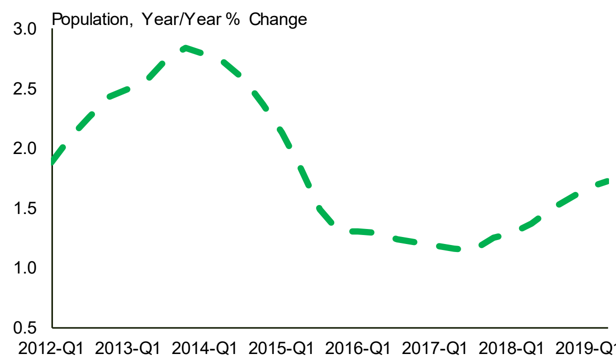
Alberta's long-awaited budget is set to be released later this fall. In light of the government's commitment to both slay the deficit and lower corporate tax rates, significant spending restraint will be in store.

Chart 1 : Capital Spending has Remained Virtually Flat in Alberta Since 2016



Source: Statistics Canada, TD Economics
*Estimates for 2018 are preliminary. Data for 2019 represents spending intentions.

Chart 2: Population Growth on an Upward Trend Since Late 2017



Source: Statistics Canada, TD Economics

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	0.7	1.7	1.9
Nominal GDP	2.1	3.6	4.1
Employment	0.5	0.9	1.6
Unemployment Rate (%)	7.0	7.1	6.5
Housing Starts (000's)	26.7	26.9	29.8
Existing Home Prices	-2.1	1.4	1.4
Home Sales	1.4	11.1	6.6

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

Saskatchewan

Facing challenging conditions in key commodity industries, Saskatchewan's economy is set to deliver sub-par growth this year. Despite these pressures, job creation has been surprising on the upside, helping to support spending and keeping the overall economy on the growth track. However, this outsized hiring trend is unlikely to be sustained in 2020, given our expectation for continued commodity softness and tepid growth in real output.

Production in commodity areas has been struggling due to a host of factors. Following the closure of the McArthur River mine last year, uranium production has slumped by around 12% y/y so far in 2019. Oil output has flatlined and oilpatch capital spending remains subdued notwithstanding an improvement in heavy oil prices since late last year. Within the agriculture sector, confidence has been hit by trade uncertainty and China's export ban (Chart 1). The mix of lower canola seed exports, record high stocks, and still-depressed prices are set to weigh on farm cash receipts and incomes in the coming quarters.

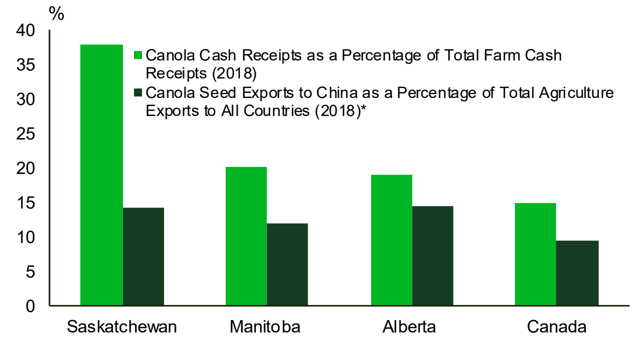
Healthy increases in potash output so far this year have been providing a counterbalance to these areas of weakness. Unfortunately, this area also suffered a setback recently with the announced temporary shutdowns of three mines (Allan, Lanigan, and Vanscoy) due to currently weak market conditions.

A more buoyant picture has been painted by the province's labour market. Job growth this year is on track to run at twice the pace of output, while the unemployment rate remains relatively low (Chart 2). The composition of job gains was geared towards both the public and private sectors (on a ytd y/y basis), though wage growth has remained soft. Next year, we expect to see a convergence in hiring relative to output, with both likely to advance at tepid rates.

Home sales in the province picked up in the second quarter. An unexpected drop in borrowing rates in recent months has enhanced an already-favourable affordability picture. Still, continued excess supply in the key markets will limit any upside in prices.

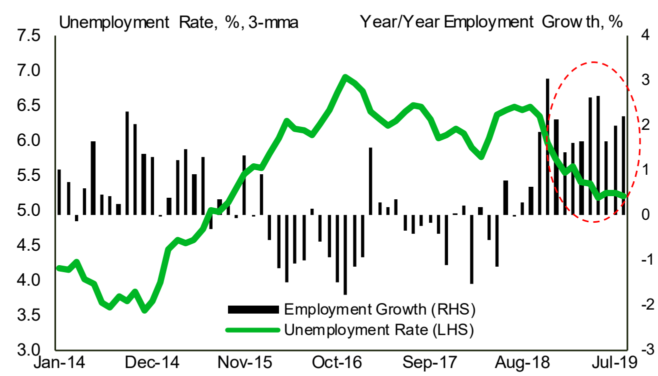
Despite a challenging economic backdrop, Saskatchewan's government has broadly maintained its modest surplus target for FY2019-20. A balanced budget, alongside the province's relatively low net debt/GDP ratio, leave it in an enviable position compared to most of its provincial peers.

Chart 1: Saskatchewan's Agricultural Sector is Exposed to the Subdued Canola Outlook



Source: Industry Canada, Statistics Canada, TD Economics
*Data is for domestic exports and excludes support activities, forestry, floriculture, and aquaculture products

Chart 2: Saskatchewan's Labour Market Showing Some Resilience this Year



Source: Statistics Canada, TD Economics. Last Data Point: August, 2019

Saskatchewan Economic Forecasts [Annual average % change, unless otherwise noted]			
	2019	2020	2021
Real GDP	0.7	1.2	1.5
Nominal GDP	2.5	3.0	3.7
Employment	1.6	0.5	0.7
Unemployment Rate (%)	5.4	5.7	5.7
Housing Starts (000's)	2.4	4.0	4.1
Existing Home Prices	-1.4	-0.3	0.5
Home Sales	1.8	4.4	6.0

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

Manitoba

2019 is shaping up to be another modest year, with slowing major project activity and Chinese trade restrictions acting as growth headwinds. Indeed, the projected 1.3% gain this year would fall well below the province's post-crisis average of 2.2%. Looking ahead, a better showing is in store alongside firming housing market activity and a broader pickup in conditions across the Western region.

Hiring has disappointed, with only 1.4k jobs gained so far this year. This is weighing on household expenditures, with inflation-adjusted retail sales lower on a year-to-date basis, partly in housing-related categories. However, this trend is not expected to continue. Home sales have risen so far in 2019 and further gains are anticipated, supported by low mortgage rates and measures to help first-time homebuyers.

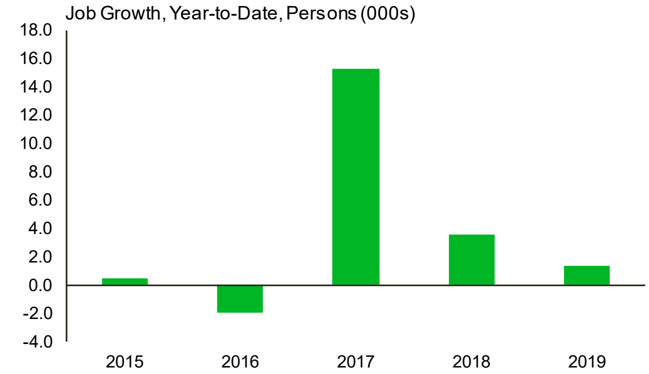
Manitoba has had success in attracting investment into its food manufacturing industry. Indeed, two large-scale projects, meant to expand capacity in the food processing sector, are currently underway. These will soon be joined by a new $65 million pea processing facility. Together, these projects are expected to be fully operational in 2020, thereby supporting manufacturing output.

Despite these projects, overall non-residential investment should subtract from growth in 2019 and 2020 as major project activity slows. Construction of Enbridge's Line 3 replacement is complete, the Bipole III hydro-electric project has also concluded, and the Keeyask Generation Station project will wind down. That said, an offset will come from the Manitoba-Minnesota Transmission project, on which work started in August.

International exports are up only modestly this year, as gains to the U.S. have been offset by plunging exports to China. Ongoing trade disputes will likely keep exports to China subdued, while softer growth stateside constrains U.S.-bound shipments. However, the full integration of Manitoba into the New West Partnership early next year offers some upside for interprovincial exports.

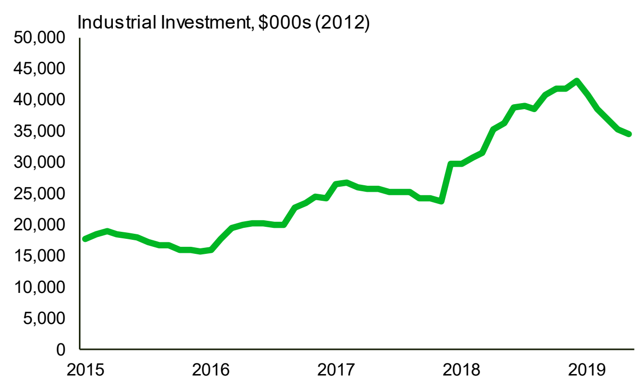
The PC government won a majority in the latest election. Its platform offered some modest stimulus, largely through the continuation of their plan to lower personal income taxes, and infrastructure spending.

Chart 1: Hiring Proceeding at a Slower Pace Than in Recent Years in Manitoba



Source: Statistics Canada, TD Economics

Chart 2: Industrial Investment Coming Off the Boil in Manitoba



Source: Statistics Canada, TD Economics

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	1.3	1.7	1.8
Nominal GDP	3.1	4.0	3.8
Employment	0.9	0.5	0.8
Unemployment Rate (%)	5.5	5.6	5.3
Housing Starts (000's)	7.2	6.1	5.9
Existing Home Prices	0.0	2.9	3.9
Home Sales	9.6	7.1	2.2

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

Ontario

Ontario's economy likely bounced back from its winter doldrums in Q2, supported by a temporary spike in automotive shipments and increased residential investment. This stronger-than-anticipated expansion has motivated an upward revision to our 2019 growth forecast. However, headwinds are building, with slower U.S. expansion and elevated trade policy uncertainty likely to weigh on growth in 2020.

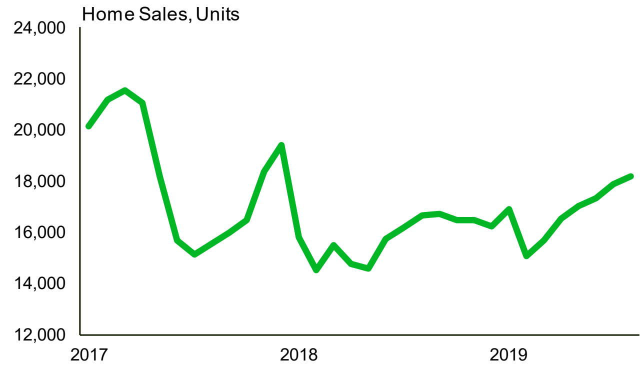
Ontario's labour market remains strong, as an uptrend in the participation rate and a healthy influx of migrants is helping firms secure workers amid tight conditions. However, there is a disconnect between strong job markets and consumer spending. Indeed, the first quarter's 1.5% annualized gain in consumption was the slowest in several years. With very little savings to fall back on, highly indebted households are keeping a tighter grip on their wallets. And, as household balance sheets only slowly repair, the outlook is for further subdued gains.

On the housing front, home sales likely increased again in Q3, spurred by low mortgage rates. Markets in regions outside of the GTA remain the tightest. However, a rebound in GTA sales in recent months is supporting a firming in price growth. Peering ahead, additional gains in sales and prices are likely across the province, fueled by overall healthy fundamentals, though a return to the excesses of past years seems unlikely.

Business activity indicators are showing some cracks, as manufacturing and wholesale sales have slowed markedly this year. Export growth, while decent so far this year, has been powered by shipments to the U.K. – something that is likely unsustainable given challenges in its economy. In contrast, growth in U.S-bound exports has been more subdued. Moving forward, a downgraded profile for U.S. GDP and weakness in the U.K. (the two largest export markets) signals a bumpier road ahead for exporters, while elevated uncertainty should continue to hamper business investment.

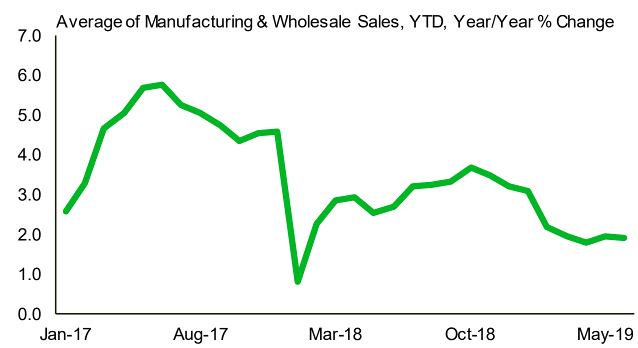
Recently, the Ontario government reported more headway last year in meeting its medium-term balanced budget goal last year, as it reported a lower-than-expected $7.4 billion deficit. While this improved starting point implies less required fiscal restraint going forward, spending growth is still likely to be tightly contained. However, to the extent that these actions help put Ontario's in a more sustainable fiscal position, the economy should benefit over the longer-term.

Chart 1: Home Sales Recovering, Thanks to Low Mortgage Rates, Healthy Fundamentals



Source: CREA, TD Economics

Chart 2: Business Activity Gearing Down Even Before Latest Trade War Escalations



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

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	1.6	1.6	1.7
Nominal GDP	3.8	3.7	3.7
Employment	2.7	1.0	0.6
Unemployment Rate (%)	5.7	5.8	5.8
Housing Starts (000's)	70.1	75.1	78.4
Existing Home Prices	5.9	6.2	3.4
Home Sales	9.9	10.2	3.4

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

Québec

Quebec's economy remains on a strong footing, managing to emerge relatively unscathed from the 2018Q4/2019Q1 slowdown that gripped the country overall. Quebec likely maintained this strength in the second quarter, supported by healthy housing activity and solid gains in the services sector. All told, a hearty first half performance leaves growth on track to register a 2.5% gain in 2019, marking the strongest 3-year growth run for the province since the late 90's tech boom. However, the picture is softer moving forward, as capacity constraints, trade uncertainty and a weaker external environment weigh on growth.

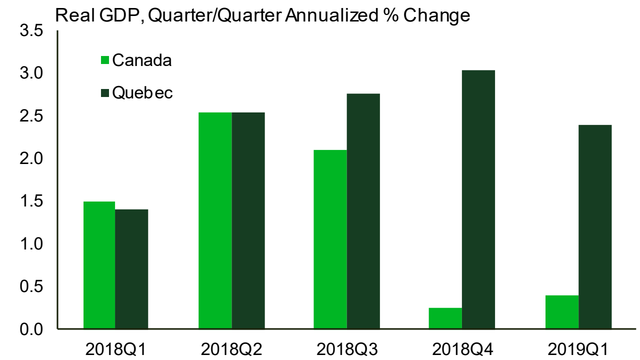
Households are in a good position, given a relatively low debt burden and high savings rates. Job markets are also sturdy with 86k (mostly full-time) positions filled so far this year while consumer spirits remain high. These healthy conditions fueled a 4% annualized surge in consumer spending in Q1. However, more moderate gains in household spending are likely in coming quarters. Labour shortages are intense in light of elevated job vacancy rates and a nation-low unemployment rate in August. As employers struggle to find suitable workers (exacerbated by the government's cap on immigration levels), job growth should slow, thereby ensuring slower spending gains.

Housing markets are contributing positively to growth, as strong labour markets and low borrowing costs are providing plenty of support to demand. Homebuilders are responding to this healthy backdrop, with starts touching levels last seen in 2012. Looking ahead, continued firm gains in home sales and prices are likely, bolstered by solid fundamentals.

Quebec's government put its fiscal house in order in recent years, creating the wiggle room necessary to roll out stimulus in the form on tax cuts and spending commitments. These measures, notably increased infrastructure investment, will support growth moving forward.

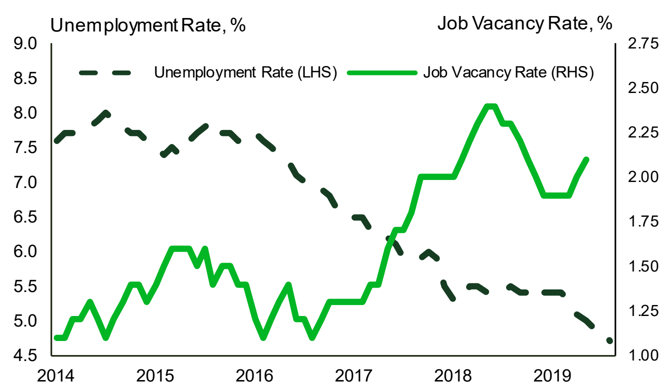
While the household sector is holding up quite well, and the public sector will likely contribute to growth in coming years, the outlook for businesses is less sanguine. Downgraded growth expectations in the U.S., weak Eurozone demand, and elevated trade tensions cast a pall on prospects for exports and private sector investment. These headwinds are expected to help dislodge growth from its current pace.

Chart 1: Quebec's Economic Growth has Outpaced Canada's by a Considerable Margin



Source: Institut de la Statistique du Québec, TD Economics

Chart 2: Labour Markets Remain Tight in Quebec



Source: Statistics Canada, TD Economics

Québec Economic Forecasts [Annual average % change, unless otherwise noted]			
	2019	2020	2021
Real GDP	2.5	1.7	1.5
Nominal GDP	4.0	3.9	3.4
Employment	1.8	0.8	0.3
Unemployment Rate (%)	5.0	5.2	5.4
Housing Starts (000's)	50.6	45.9	45.2
Existing Home Prices	4.5	3.7	2.7
Home Sales	9.8	8.5	3.3
Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics			

New Brunswick

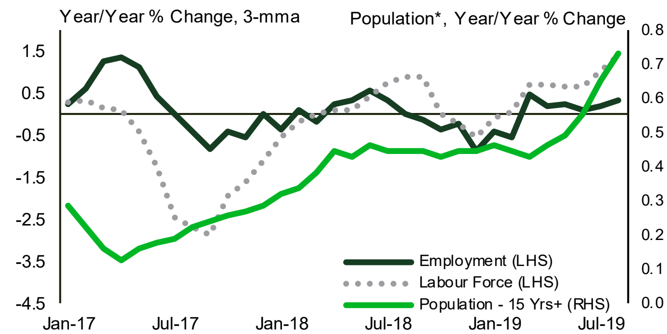
New Brunswick's economy is expected to record only a muted rebound this year. Subdued non-residential investment and weakness in manufacturing are two factors conspiring against this year's performance. That said, a recent firming in the province's labour and housing markets should support a return to more trend-like conditions in 2020.

New Brunswick's export-oriented industries are struggling so far this year, with both nominal shipments and exports down -15% and -9%, respectively, compared to the same period in 2018. Two dampening influences have been lower product prices and the lagged impact on production from last year's refinery explosion. Although a manufacturing recovery should be underway, the sector will continue to be hampered by elevated uncertainty as well as U.S. tariffs on the province's softwood lumber exports. In the medium and long term, Canada's ratification of new trade deals, including CETA and CPTPP, will open the door for increased diversification of New Brunswick's agriculture and forestry exports, potentially reducing its over-reliance on the North American market.

In contrast to softness on the export side, more domestically-oriented indicators have been holding up better. Reflecting relatively broad-based hiring strength, overall employment is up a decent 0.8% ytd y/y. Moreover, labour force gains have been boosted by a rising population (Chart 1). New Brunswick, while benefitting less than some of its other Atlantic neighbours, has still seen relatively strong population growth since 2016, driven by international immigration.

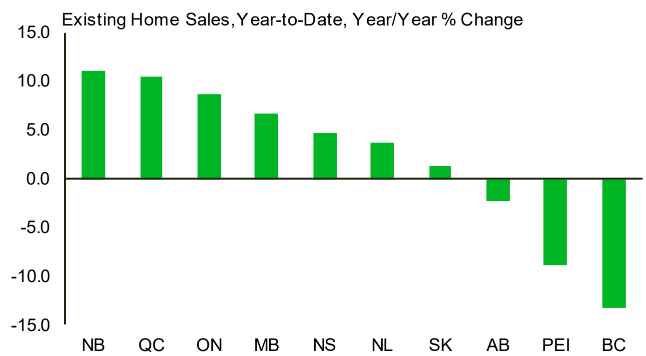
A rising employment rate and overall headcount have been key supports to both consumer spending and housing activity. Indeed, housing markets have managed to buck the national trend of softness over the last few years. So far in 2019, existing home sales (Chart 2) are up a significant 11% (ytd y/y), with the overall market now in almost sellers' territory. Demand is also supporting increased home building, with starts averaging 2.7K so far this year. And while recent retail sales performances across the country have been nothing to write home about, New Brunswick has still managed to chalk up the second-best advance among the provinces so far in 2019.

Chart 1: Employment, Labour Force, and Population Growth Picking Up



Source: Statistics Canada, TD Economics
Monthly Population Estimates (15 Years and Over)

Chart 2: New Brunswick's Resale Markets Have Been Strong of Late



Source: CREA, TD Economics

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	0.6	0.9	0.8
Nominal GDP	2.4	2.8	2.8
Employment	0.9	0.0	0.1
Unemployment Rate (%)	8.0	8.2	8.2
Housing Starts (000's)	2.7	2.4	2.5
Existing Home Prices	2.2	6.1	3.8
Home Sales	9.4	4.4	1.6

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

Nova Scotia

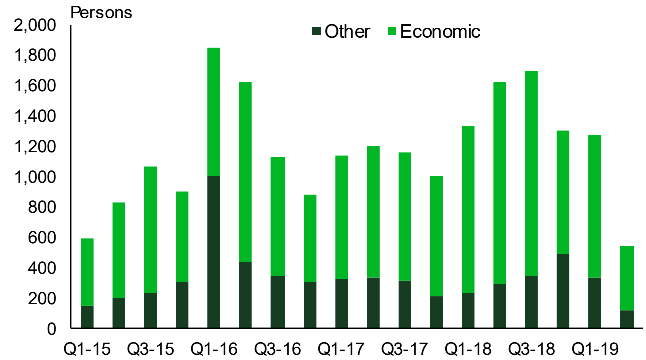
Despite some signs of moderation, Nova Scotia's economy remains on an overall solid footing. For instance, job growth is up a robust 2.4% y/y so far in 2019, although driven primarily by gains in part-time positions. And, activity in the housing market is brisk, boosted by strong population growth. Home sales growth is running at a 4% clip this year, bringing gains since 2014 to an impressive 40%. As a result, markets are tighter, and prices are growing strongly. On the supply side, homebuilding is elevated, as immigration demand has chopped residential rental vacancy rates to historic lows, encouraging construction of these units. On the softer end of the spectrum, wage growth has moderated, and households have become more cautious after splurging in 2017.

Peering ahead, we expect a decent pace of expansion, both in 2019 and 2020, supported by continued population growth. Rising federal immigration targets will likely spur another influx of newcomers, most of them economic immigrants. This should support labour markets and household incomes while underpinning consumption and housing markets. This is particularly the case given signs of improved integration of these immigrants into Nova Scotia's labour market in recent years. Furthermore, net interprovincial migration has swung from negative to positive since 2016, pointing to some success in retaining these newcomers.

Non-residential spending is also poised to support growth, with the Province pledging $691 million this fiscal year, partly towards the redevelopment of the QEII Health Sciences Centre in Halifax. This comes alongside spending to decommission the Deep Panuke and Sable offshore natural gas wells, large-scale shipbuilding in Halifax and investments in highway construction projects. Notably, a final investment decision on the proposed Goldboro LNG project has been delayed until 2020, though would represent a significant boost to the outlook should it get the green light.

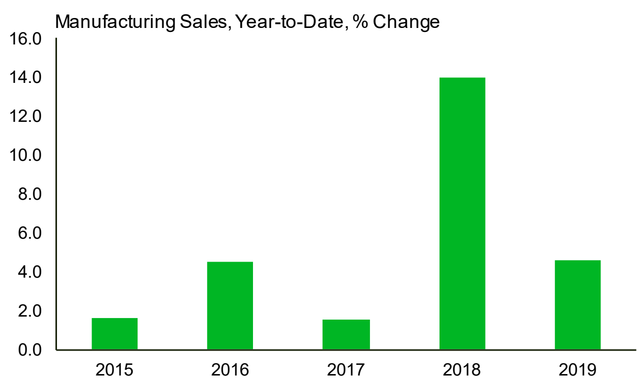
Indicators of business activity in Nova Scotia remain relatively strong but are decelerating from the headier days seen in 2018. Indeed, growth in manufacturing and wholesale sales has eased this year while business confidence has softened. Exports are also slowing from 2018's highs despite continued strength in shipments to the important Chinese market. Going forward, heightened policy uncertainty and a softer backdrop for the global economy should weigh on the province's exports and overall growth.

Chart 1: Economic Immigrants Comprise the Majority of Newcomers to Nova Scotia



Source: IRCC, TD Economics

Chart 2: Manufacturing Sales Slowing in Nova Scotia



Source: Statistics Canada, TD Economics

Nova Scotia Economic Forecasts [Annual average % change, unless otherwise noted]			
	2019	2020	2021
Real GDP	1.2	1.1	1.0
Nominal GDP	3.3	3.0	3.0
Employment	2.0	-0.2	0.2
Unemployment Rate (%)	7.1	7.6	7.6
Housing Starts (000's)	4.7	4.6	4.8
Existing Home Prices	6.9	4.6	3.6
Home Sales	6.1	5.5	2.9

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

Prince Edward Island

Robust population growth – concentrated in economic immigration – continues to support economic activity and boost hiring in PEI. Traditionally, the Island has had some difficulty retaining these newcomers. However, this appears to be turning around, with the share of newcomers leaving for other provinces trending down in recent years. This development, along with rapidly increasing manufacturing shipments, solid tourism spending, strong ICI investment and increased government spending, all point to another above-trend performance in 2019 for PEI's economy.

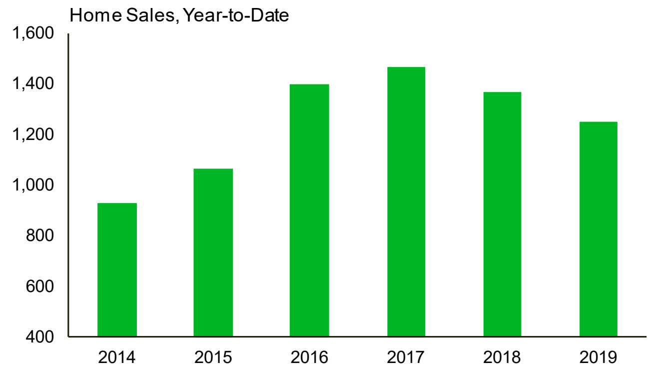
In 2020, population gains should remain robust, given rising federal immigration targets. This will underpin consumer spending, put a floor on housing activity and support the province's overall expansion rate. Still, we do expect a tapering off in the growth trajectory next year.

For starters, job growth, while still healthy, has throttled-back from the unsustainable gains seen in recent years. Further moderation is anticipated next year, as job markets have tightened considerably. This will likely restrain retail spending, which has already been subdued so far in 2019. Alongside these factors, a deteriorating global economic backdrop and heightened uncertainty are additional ingredients that will lead to slower activity. Notably, growth in manufacturing shipments and exports have been very strong thus far in 2019. However, most of these shipments have been directed to the U.S, where growth is poised to soften in 2020. A more subdued global backdrop also has negative implications for PEI's tourism industry.

In housing markets, resale activity should remain muted in 2020 after a probable decline this year, as robust price growth in recent years has eroded affordability, making it more difficult for Islanders to purchase homes. It's worth noting that the provincial government has responded to tougher affordability conditions by building new affordable units, which should boost homebuilding through the forecast horizon.

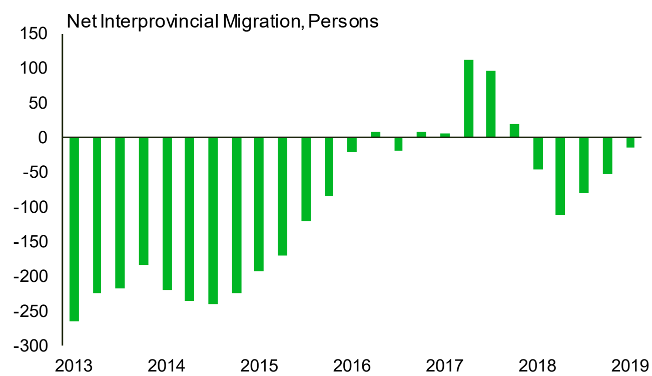
The government is set to provide some stimulus to the economy by way of tax reductions. Effective January 1st, 2020, households will benefit from tax relief in the form of an increase in the basic personal exemption and the low-income threshold, while small businesses will see their tax rate clipped by 0.5 percentage points. These policies should prove modestly growth supportive as they are implemented.

Chart 1: Home Sales Elevated, but Slowing in PEI, Weighed Down by Affordabilty Pressures



Source: CREA, TD Economics

Chart 2: PEI is Losing Less People to Other Provinces



Source: Statistics Canada, TD Economics

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	2.2	1.7	1.4
Nominal GDP	4.2	3.7	3.4
Employment	2.0	1.0	0.1
Unemployment Rate (%)	9.2	9.1	9.1
Housing Starts (000's)	1.1	1.1	1.1
Existing Home Prices	7.8	2.0	2.9
Home Sales	-12.6	-1.0	3.0

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

Newfoundland & Labrador

Newfoundland and Labrador's annual output performance remains highly sensitive to resource project investment cycles and global commodity conditions. After last year's setback, stronger commodity production and rising non-residential investment are expected to support a modest 1.7% real GDP rebound this year. As these tailwinds likely ebb, real GDP gains are likely to slow but remain positive in 2020.

Brent prices are expected to remain close to US$65 over the next few years. The recent attacks on Saudi Arabia's production facilities pose an upside risk to this forecast through the potential for a sustained higher imbedded risk premium.

This year, increased commodity production is helping to fuel robust export earnings, which are up double-digits relative to the same period last year. Despite two oil spills in the Hibernia field this year, total offshore oil production has still managed to expand by around 4%. At the same time, iron ore production is on track to normalize this year following a two-month strike in late 2018 that disrupted output.

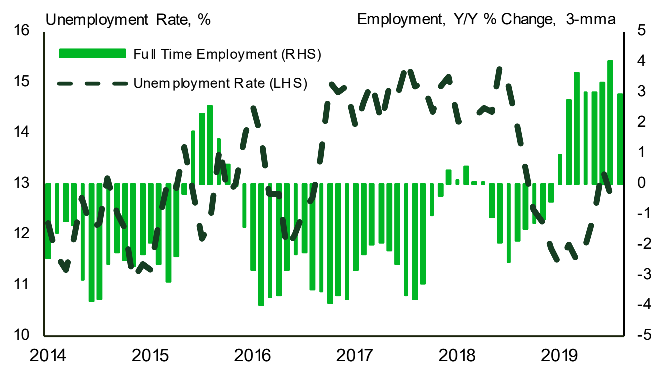
The other key near-term growth driver has been non-residential construction investment, which has rebounded from last year's soft patch on the back of expansions in the West White Rose oil field and Voisey's Bay underground nickel mine. Looking ahead, a potential sanctioning for the large-scale Bay Du Nord project in 2020 would brighten the outlook for offshore exploration activity.

The province's labour market has improved in tandem with the broader growth picture. Net job gains, although recently moderating, have been concentrated in full time jobs (Chart 1). In contrast to resale markets, where activity has picked up modestly this year, homebuilding continues to struggle due to an ongoing supply glut.

The province continues to experience a declining headcount (Chart 2). Interprovincial outmigration continues to subtract from population growth, while the province has not been benefitting from a parallel rise in international immigration like its other Atlantic peers.

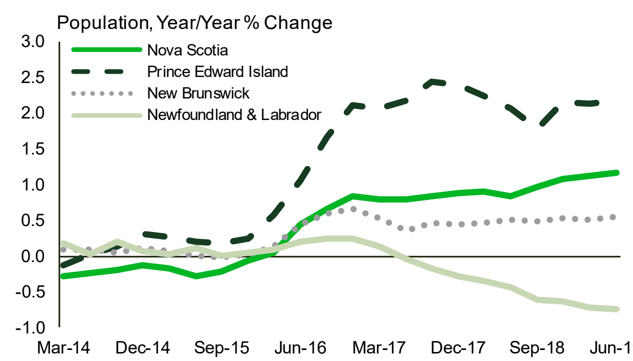
Although provincial finances have benefitted from a one-time $2.5 billion payment federal payment, the government still faces a structural deficit on the order of $575 this year (absent the Atlantic Accord payment), which it plans to eliminate by FY 2022-23.

Chart 1: Full-Time Employment started the Year on a Good Note, but Has Recently Moderated



Source: Statistics Canada,TD Economics

Chart 2: Newfoundland & Labrador Lagging Behind in Terms of Population Growth



Source: Statistics Canada, TD Economics

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

	2019	2020	2021
Real GDP	1.7	1.0	1.5
Nominal GDP	3.6	3.1	3.8
Employment	0.9	-0.8	0.0
Unemployment Rate (%)	12.5	13.1	13.1
Housing Starts (000's)	0.8	1.2	1.1
Existing Home Prices	-3.9	-1.9	-1.2
Home Sales	9.3	6.7	2.0

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

Provincial Economic Forecasts

Provincial Economic Forecasts	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
National	**1.5**	**1.6**	**1.7**	**3.6**	**3.7**	**3.7**	**2.0**	**0.8**	**0.6**	**5.7**	**5.9**	**5.8**	**213**	**204**	**209**	**1.6**	**6.5**	**3.0**
Newfoundland & Labrador	1.7	1.0	1.5	3.6	3.1	3.8	0.9	-0.8	0.0	12.5	13.1	13.1	0.8	1.2	1.1	-3.9	-1.9	-1.2
Prince Edward Island	2.2	1.7	1.4	4.2	3.7	3.4	2.0	1.0	0.1	9.2	9.1	9.1	1.1	1.1	1.1	7.8	2.0	2.9
Nova Scotia	1.2	1.1	1.0	3.3	3.0	3.0	2.0	-0.2	0.2	7.1	7.6	7.6	4.7	4.6	4.8	6.9	4.6	3.6
New Brunswick	0.6	0.9	0.8	2.4	2.8	2.8	0.9	0.0	0.1	8.0	8.2	8.2	2.7	2.4	2.5	2.2	6.1	3.8
Québec	2.5	1.7	1.5	4.0	3.9	3.4	1.8	0.8	0.3	5.0	5.2	5.4	50.6	45.9	45.2	4.5	3.7	2.7
Ontario	1.6	1.6	1.7	3.8	3.7	3.7	2.7	1.0	0.6	5.7	5.8	5.8	70.1	75.1	78.4	5.9	6.2	3.4
Manitoba	1.3	1.7	1.8	3.1	4.0	3.8	0.9	0.5	0.8	5.5	5.6	5.3	7.2	6.1	5.9	0.0	2.9	3.9
Saskatchewan	0.7	1.2	1.5	2.5	3.0	3.7	1.6	0.5	0.7	5.4	5.7	5.7	2.4	4.0	4.1	-1.4	-0.3	0.5
Alberta	0.7	1.7	1.9	2.1	3.6	4.1	0.5	0.9	1.6	7.0	7.1	6.5	26.7	26.9	29.8	-2.1	1.4	1.4
British Columbia	1.7	2.0	2.0	4.5	4.2	4.0	2.8	0.7	0.6	4.7	4.7	4.7	47.1	36.9	36.1	-2.8	5.3	2.7

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at September 2019.