TD Economics

Provincial Economic Forecast

Most Economies to Narrowly Keep Their Heads Above Water in 2023

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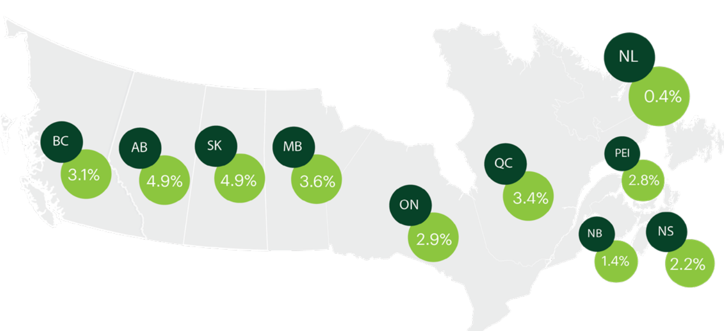
- Provincial economic prospects have further dimmed amid notable upgrades to both our inflation and interest rate forecasts as well as a souring global backdrop. These headwinds are likely to culminate in 2023, when real GDP effectively stalls out across most provinces. Although job markets are heading into the autumn displaying ongoing signs of excess demand, regional unemployment rates appear poised to march steadily higher in the coming months.
- Households across Canada will face a growing financial squeeze from rising borrowing costs. We assume the Bank of Canada will hike its policy rate to 4.00% this autumn, 75 bps higher than our June projection. Due to their relatively high debt-to-income ratios, households in Ontario, B.C., and Alberta face disproportionally large negative rate impacts on spending. On the opposite end of the spectrum, households in most of the Atlantic Region and Quebec should be partially shielded by their comparatively low burdens.
- The broad-based growth downgrades also reflect a weaker global growth backdrop. Growth prospects are particularly downbeat in Europe, which will likely impact exporters in the Atlantic Region, Ontario, and Quebec.
- Oil producing provinces have been benefitting this year from past gains in oil prices. However, since the summer, prices have pulled back substantially from their highs, leading us to shave our near-term WTI price forecast. We now project prices to continue to move lower, and see them hitting a floor of US$80 per barrel by the end of 2023.
- Better-than-expected economic growth and higher commodity prices than predicted in budget plans have several provinces anticipating better fiscal fortunes this year. For instance, the three westernmost provinces had expected a combined FY 2022/23 deficit of $5 billion at the time of the spring budgets. They are now estimating an aggregate surplus of $15 billion. Several provinces are offering new "inflation-relief" in the form of rebates to households, which could marginally stimulate consumption, but also inflation.
- Rising interest rates signal even more downside for housing markets. We now forecast a 22% peak-to-trough decline in Canadian average home prices from 2022Q1 – 2023Q1. Ontario, B.C., and parts of the Atlantic Region should see the steepest declines.

Provincial Real GDP Growth Forecast (2022)



Source: TD Economics. Forecast as of September 2022.

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

British Columbia

After an impressive recovery that carried over into the first half of 2022, B.C.'s economy has recently been showing some cracks amid rising interest rates. With rate pressures only expected to build further, we've built in a steeper downgrade to B.C.'s real GDP growth, both this year and next, than the country overall.

Employment in the province has dropped nearly 1% since May – a more outsized decline than observed in most other parts of the country. A big chunk of this weakness has been in the retail and wholesale trade sector (Chart 1). This fits with our view that household spending will slow significantly moving forward. In fact, we've already seen some indications on this front as inflation-adjusted retail spending fell by an average of 5% (annualized) in the first half.

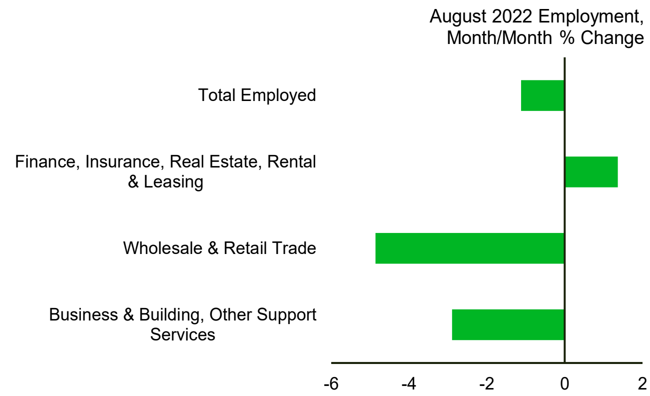
Households in B.C. are the most indebted in the country, (Chart 2) flagging outsized vulnerability to rising borrowing costs. Also, real estate captures a disproportionate share of household wealth, leaving household spending sensitive to the recalibration in home prices underway.

Higher interest rates have already had a visible impact on the province's real estate industry. Indeed, average home prices have dropped 10% from their February peak, and we expect them to fall further over the next few quarters as the Bank of Canada tightens further and job markets continue to slow. With housing activity making up as much as 10% of GDP in B.C., the negative spill-overs from softening real estate markets will not be lost on the provincial economy in the coming quarters.

Prospects for exporters in B.C. have also taken a turn for the worse. Our forecasts for U.S. and Chinese economic growth (B.C.'s two largest international export markets) have been reduced considerably. Specifically, we've taken down our forecasts for U.S. homebuilding, which spells trouble for B.C.'s important lumber industry. It's not bad news on this front, however, as natural gas production in the province has been growing rapidly and is up 15% in the first half compared to the same period in 2021.

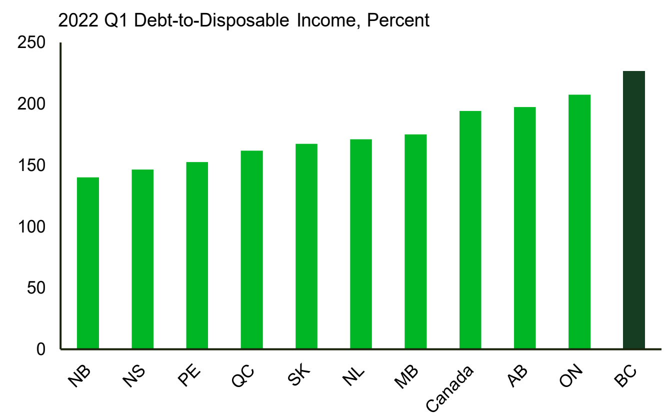
The province's first quarter fiscal projections for FY 2022-2023 showed a $706 million surplus, a vast improvement from the $5.5 billion deficit expected in the spring budget. The province has benefited from elevated natural gas and coal prices early in the year and tourism picked up during reopenings.

Chart 1: Change in Employment in B.C Dragged Down by Wholesale and Retail Trade



Source: Statistics Canada,TD Economics.

Chart 2: B.C Still Carrying Highest Debt-to-Disposable Income Ratio in the Country



Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.1	0.8	0.9
Nominal GDP	11.9	4.0	3.0
Employment	2.8	0.2	0.8
Unemployment Rate (%)	5.0	5.6	5.7
Housing Starts (000's)	42.8	32.4	32.6
Existing Home Prices	4.8	-9.4	4.5
Home Sales	-34.6	-18.3	25.2

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

Alberta

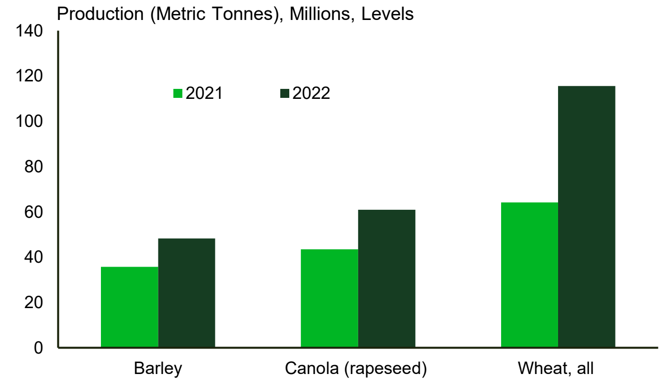
Alberta's economy has been turning in robust growth so far this year amid surging crude oil and natural gas prices in the winter and spring. The soaring income performance was reflected in Alberta's first quarter fiscal update in which the government upgraded its budget estimate for the current year to a hefty $13.2-billion surplus. In the oilpatch, while some caution around deploying capital has continued to be exercised by firms, both drilling activity (40.6% y/y) and oil production (3.3% y/y) have jumped well above their levels of a year ago.

Looking ahead, we expect Alberta's economy to record growth well above the national rate. However, we have tapped down our expectations for gains, especially in 2023. Crude oil prices have pulled back by some US$30-40 per barrel since the peak. And, as the pace of income growth moderates, the province's consumers and businesses will become more exposed to the universal headwinds of high inflation and rising interest rates. On the plus side, we see a solid floor for WTI prices at around US$80 over the forecast period, while natural gas prices are likely to remain elevated at US$7 - US$8. What's more, with the Transmountain pipeline becoming operational in 2023, the sector will benefit from more export capacity. The farm sector is also expected to improve. Indeed, preliminary crop estimates show increased production. More specifically, wheat production is expected to increase 80% (Chart 1), which will bring further revenues for Albertans.

The unemployment rate in the province has been consistently trending below the national average since the start of the pandemic and job creation has run at a brisk 5.6% y/y rate, on average, so far in 2022. However, we are starting to see some signs of cooling in hiring over the past 2 months alongside an uptick in the jobless rate in August. During this period, job losses have been recorded in both the goods and services producing sectors, although declines have been especially notable in the latter category. With net job gains likely to remain sub-par in the coming months, the jobless rate should continue to trend upwards.

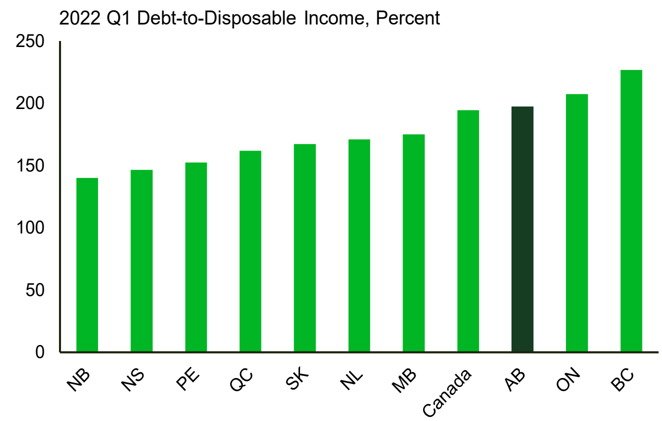
Alberta's household debt-to-disposable income ratio (Chart 2) has continued to increase this year and stands third highest among the provinces. This implies heightened sensitivity to rising borrowing costs that will no doubt exert a drag on consumption and slow down economic growth moving forward.

Chart 1: Alberta Crop Production Estimates for 2022 Projected To Be Much Larger Than 2021



Source: Statistics Canada, TD Economics.

Chart 2: Debt-to-Disposable Income Ratio in Alberta one of the Most Elevated



Source: Statistics Canada,TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	4.9	1.8	1.4
Nominal GDP	26.5	3.3	3.4
Employment	4.7	0.9	1.0
Unemployment Rate (%)	6.0	6.1	6.4
Housing Starts (000's)	36.2	26.5	26.4
Existing Home Prices	3.1	-6.7	5.2
Home Sales	-1.9	-22.2	13.3

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

Saskatchewan

Like its neighbor to the west, Saskatchewan's economy has been benefiting this year from robust conditions for its key commodities, specifically potash, crude oil, and wheat. While the province is unlikely to buck the trend of slowing growth in the quarters ahead, it appears well-positioned to hold up better than most others. Signs of ongoing resilience continue to be displayed in the latest manufacturing, retail and housing data, where the province continues to outperform.

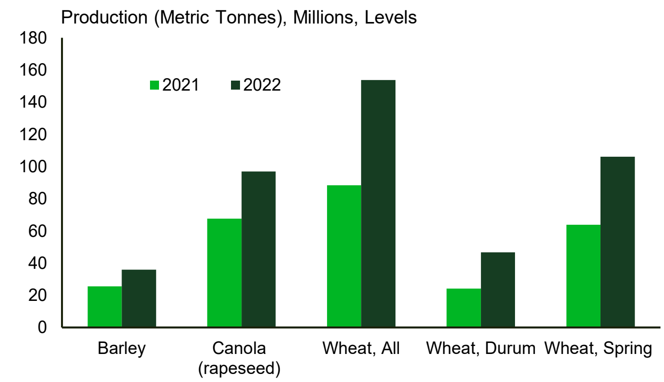
Despite a pull-back in wheat and crude oil prices over the past few months amid global recession worries, they remain above their longer-term averages. And with lingering scarcity fears, we see relatively limited downside to crop and energy prices over the remainder of 2022 and into 2023. Prospects for the fall harvest are relatively bright, with crop production (Chart 1) expected to rebound from last year's drought-ravaged lows. According to Statistics Canada, total field crop production is projected to return to normal yields this year, with national wheat production estimated to increase more than 50% y/y. Given that agriculture comprises an outsized 12% share of GDP, this is poised to give the economy a notable boost in the months ahead.

Saskatchewan has also increasingly positioned itself as a world leader in potash production. Amid growing global shortages due to the Russia-Ukraine war, Nutrien has committed to ramp up annual potash production capability to 18 million tonnes by 2025 and create more jobs.

The run-up in commodity prices has been a double-edged sword. Rising inflation has been starting to take a toll on real consumer spending. Indeed, after lagging for much of the year, Saskatchewan's inflation rate is now running roughly in line with Canada's (Chart 2). Rising food and transportation costs have been key culprits behind the surge in inflation, though pressures have been broadening.

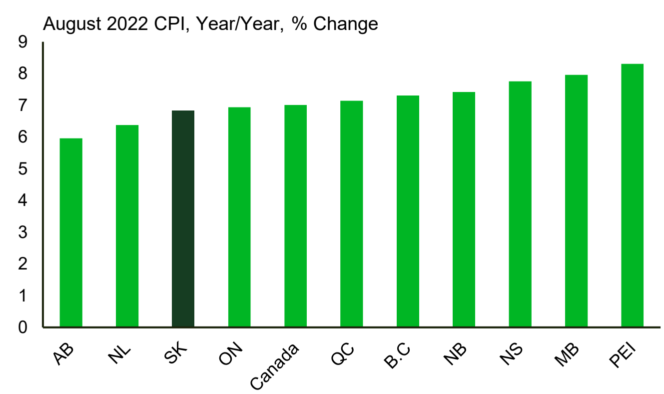
In its first quarter update, the provincial government upgraded this year's budget outlook dramatically to a $1.04 billion surplus, mainly thanks to higher prices received for potash and oil. At the same time, the government recycled some of the revenue windfall into some additional spending to help households cope with inflation. Notably, a one-time cheque of $500 will be provided to each Saskatchewan resident aged 18 years or older.

Chart 1: Saskatchewan Crop Production Estimates for 2022 Projected To Be Much Larger Than 2021



Source: Statistics Canada, TD Economics.

Chart 2: Inflation in Saskatchewan Edging Closer to the National Average



Source: Statistics Canada, TD Economics.

Saskatchewan Economic Forecasts
[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	4.9	1.6	1.6
Nominal GDP	28.1	2.6	3.7
Employment	3.4	0.2	0.2
Unemployment Rate (%)	4.7	4.8	5.3
Housing Starts (000's)	4.5	3.7	3.7
Existing Home Prices	1.5	-3.3	5.0
Home Sales	-11.1	-12.0	10.6

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

Manitoba

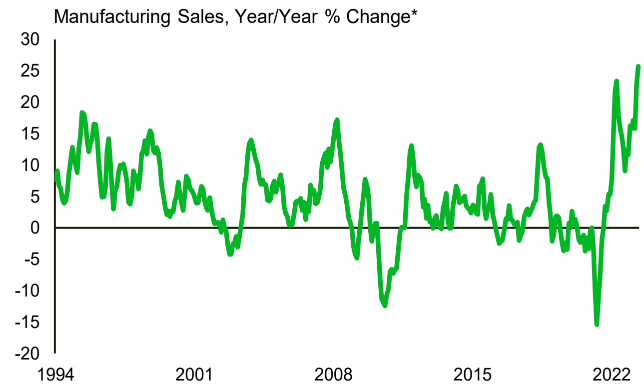
We are projecting a solid 3.6% rate of growth for Manitoba's economy this year. This is unchanged from our June forecast and halts a disappointing 3-year stretch of poor performances for the province. Economic activity in 2022 is being supported by the public sector, where hiring is up solidly despite projections for a modest pullback in FY 2022/23 program spending growth in the latest budget. Re-openings have provided another big boost to the economy.

Manufacturers, meanwhile, are enjoying an impressive year with shipments up 20% through July versus the same period last year (Chart 1). Within manufacturing, food manufacturing is performing well, boosted by production from the new, large-scale pea-processing plant and a newly expanded meat processing facility. Notably, production at both facilities came online late last year. Shipments of chemicals have also risen sharply, supported by fertilizer products. However, manufacturing of transportation equipment still appears to be struggling under the weight of input shortages.

Although manufacturers have enjoyed a solid year so far in 2022, the outlook for next year is murkier. We've downgraded both our U.S. and Canadian growth forecasts, the latter of which is particularly important for Manitoba given its outsized reliance on interprovincial demand. It's of some (cold) comfort that the province doesn't count Europe or China as large export markets, as growth projections have also been downgraded in both regions.

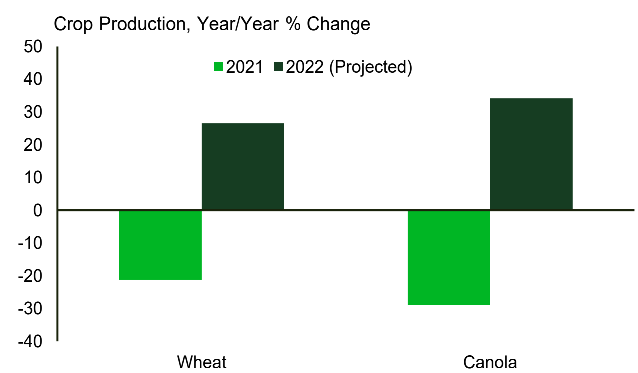
Like elsewhere in the country, economic growth next year in Manitoba should be impacted by elevated inflation and higher borrowing costs, which will likely sap steam from consumer spending. On this front, inflation has been running especially hot in Manitoba and wage growth has been relatively slow. However, we've downgraded our 2023 growth forecast by less than the rest of the country on the strength of a few factors. The most important of which is agricultural output, which is recovering in a big way this year and should also boost growth in 2023. Indeed, crop production has risen sharply at the national level so far. What's more, preliminary estimates from Statistics Canada point to a massive gain in Manitoba's agricultural output in 2022, thanks to drastically improved growing conditions (Chart 2). This rising tide should lift other boats, as the province's large transportation sector will likely be boosted by the increased demand for grain shipments. Finally, elevated prices for key crops like wheat and canola are offering tremendous support to incomes in the agricultural sector.

Chart 1: Rising Prices and Demand Offering Ample Support to Manufacturers in Manitoba



Source: Statistics Canada, TD Economics.
* Three month moving average.

Chart 2: Massive Bounceback in Agricultural Production Expected in Manitoba This Year, After Drought Plagued 2021



Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.6	1.2	1.4
Nominal GDP	12.4	3.7	3.5
Employment	2.3	0.0	0.4
Unemployment Rate (%)	4.7	5.2	5.5
Housing Starts (000's)	7.5	5.2	5.1
Existing Home Prices	7.0	-7.0	4.0
Home Sales	-18.4	-3.4	18.2

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

Ontario

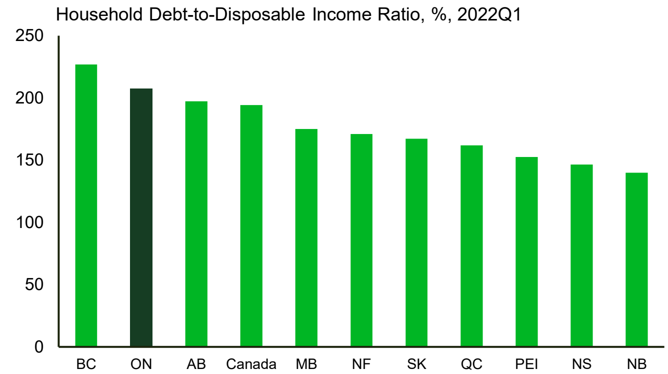
After a strong first half, economic growth in Ontario is poised to slow sharply in the coming quarters, as the province's highly indebted households (Chart 1) are forced to pare back their consumption in the face of rising borrowing costs and reduced wealth, and as growth slows to a crawl south of the border. On the former front, the Bank of Canada increased its policy rate this month, and we think another 75 bps of tightening is in the cards through the remainder of this year. All of that said, a high stock of accumulated excess savings built up through the pandemic as well as continued tightness in job markets and sturdy wage growth are expected to provide some partial protection from these headwinds.

If national GDP data are any guide, this cooling has already begun in earnest. The Canadian economy has registered essentially no growth since April, with sizeable drags coming from construction, manufacturing, and finance, insurance, and real estate. This maps quite well to the industries that have seen reduced output in Ontario over the same period. Moreover, Ontario's job engine has also shifted into reverse in recent months, with the province losing about 70k jobs from June through August, and erasing a chunk of the gains made after industries reopened earlier in the year.

The province is the epicentre of the Canadian housing market correction. From the February peak through August, average prices have tumbled 13% - more than any other province - while sales are off about 40%. This is especially problematic for Ontario given the heightened linkages between Ontario's real estate sector and the broader economy (Chart 2). There was some relief for homeowners in August, as prices bounced 1.8% m/m. However, with higher rates and slower economic growth on the way, further downside for housing is likely in the offing.

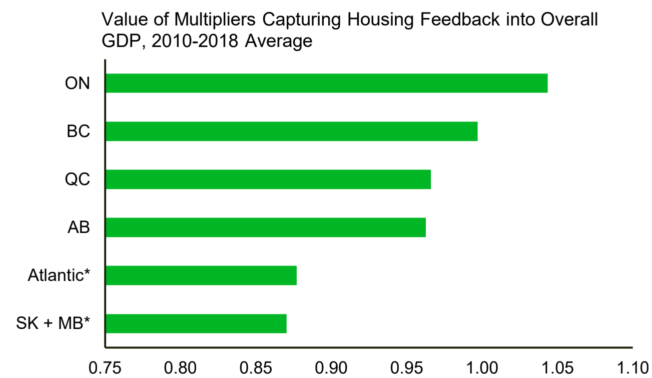
Even as residential investment is contracting at a outsized pace, we think non-residential investment will be negatively impacted by higher borrowing costs, weaker global and domestic growth, and waning confidence. However, an important offset comes from Ontario's investment in its budding electric vehicle manufacturing industry. To date, some $16 billion is slated to be invested in the sector, including a $5 billion commitment by Stellantis to create the first battery manufacturing plant in Canada. Construction on this project is slated to begin this year, with the plant operational by 2024.

Chart 1: Ontario's Highly Indebted Households Vulnerable to Rising Borrowing Costs



Source: Statistics Canada, TD Economics.

Chart 2: Ontario Has Largest Feedback from Housing to Broader Economy



*Average. Source: Statistics Canada, TD Economics.

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	2.9	0.7	1.0
Nominal GDP	9.5	5.0	3.2
Employment	4.4	0.3	0.6
Unemployment Rate (%)	5.6	6.3	6.7
Housing Starts (000's)	85.2	80.9	81.7
Existing Home Prices	3.8	-12.3	4.4
Home Sales	-33.1	-16.4	23.9

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

Québec

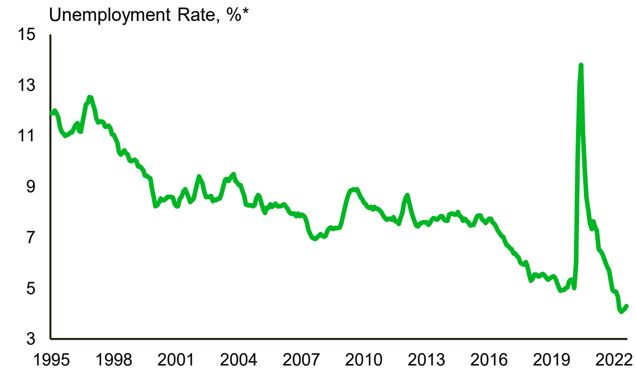
GDP growth expanded at a towering rate north of 6% annualized in the first quarter – roughly double the national tally. While this number could be revised downwards, the first quarter was undoubtedly strong. And, monthly GDP data released so far suggests that another healthy gain took place in the second quarter, stoked by re-openings. While these heady growth figures are positive for 2022 overall, a chasm has opened between GDP and employment in recent months. Gaps between these two measures don't tend to persist. And, given the growing headwinds on spending from higher rates and rising prices, it's more likely that GDP will "catch down" to jobs in coming months.

It's certainly not the demand for labour that has job growth lagging, as job vacancies remain elevated. Rather, issues finding suitable supply have plagued firms in Quebec amid the tightest job market in a generation (Chart 1). Note that population growth remains slow, while the level of the labour force has been on a downward track since the end of 2021. Governments have recognized these challenges and have changed policies to help improve the flow of labour into Quebec. For example, the federal government has created the IMP+ program, specifically built to reduce the waiting time applicants face when moving to Quebec. However, these policies will take time to work.

Although household spending growth is likely to slow moving forward, consumers have several buffers in place that should help keep it's pace decent. First, the aggregate household savings rate remained some 6.8 percentage points above its pre-pandemic level in the first quarter, meaning that consumers have a significant degree of savings to draw upon to finance spending. Second, wage growth is robust (Chart 2), and is running at the second fastest pace in Canada by some measures. Third, households in the province are carrying less debt and have seen their debt burdens expand by a lesser amount during the pandemic. They also have less of their assets tied up in real estate, shielding household balance sheets from falling home prices to a larger extent than the other large provinces.

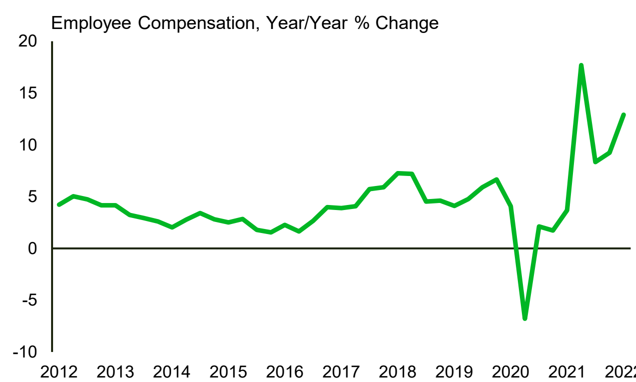
Alongside a probable slowdown in consumer spending, another factor that drags down Quebec's outlook compared to our June forecast is our lowered expectations for both U.S. and European economic growth. Note that Quebec sends about 75% of its exports south of the border, with 10% shipped to the European Union.

Chart 1: Historically Tight Job Markets Restricting Job Growth in Quebec



*Three-month moving average. Source: Statistics Canada, TD Economics.

Chart 2: Sharply Rising Wages Supplying Some Offset to Surging Inflation in Quebec



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

Québec Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	3.4	0.6	0.7
Nominal GDP	9.7	5.1	2.8
Employment	2.2	-0.2	0.0
Unemployment Rate (%)	4.6	5.6	6.1
Housing Starts (000's)	62.1	47.2	43.0
Existing Home Prices	8.5	-7.6	4.6
Home Sales	-18.1	-10.6	12.6

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

New Brunswick

New Brunswick's economy has been holding up well despite facing an inflationary bite that continues to outstrip the national average. Population trends have remained favourable while the job market has churned out further net employment gains since the spring. Still, a marked slowdown in activity remains in the cards in our view. It has merely been delayed until late this year and into 2023.

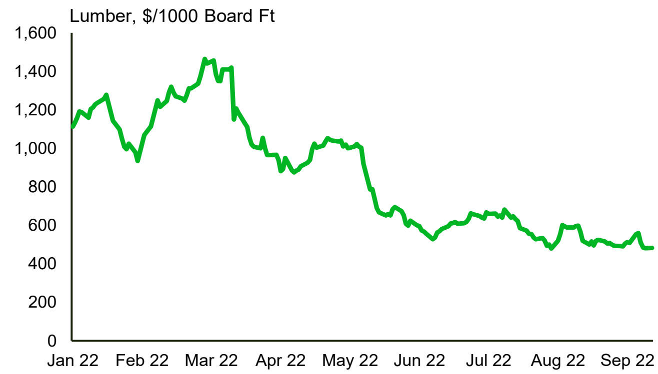
New Brunswick has a higher-than-average exposure to the deteriorating global outlook. Lumber prices (Chart 1) have been hit by a slowdown in demand from the U.S. and other key export markets. New anti-dumping duty rates on Canadian softwood lumber announced on August 4th during the U. S.'s third administrative review will also be harmful to the province's economic growth. Oil and gas production is also projected to decrease in the province as ORLEN Upstream Canada Ltd seeks approval to decommission oil and gas wells in Moncton, limiting crude oil sent to the Irving refinery. The decommission will also put some limit on the ability of the province to benefit from the elevated commodity price backdrop moving forward.

Housing is one area of the economy where signs of cooling have been accumulating amid the rising cost of borrowing. Since reaching a peak earlier this year, home sales and average prices have corrected by some 22% and 12%, respectively. We expect continued cooling moving forward, reflecting further increaseses in interest rates.

Continued brisk population growth has been helping to mitigate against a deeper adjustment in housing activity. Indeed, the latest data showed head counts holding at a multi-decade high of 2.4% y/y (Chart 2) as Canadians try to take advantage of the lower cost of living in the province, enabled by remote working. We expect to see part of this trend reverse and population growth to ease in 2023.

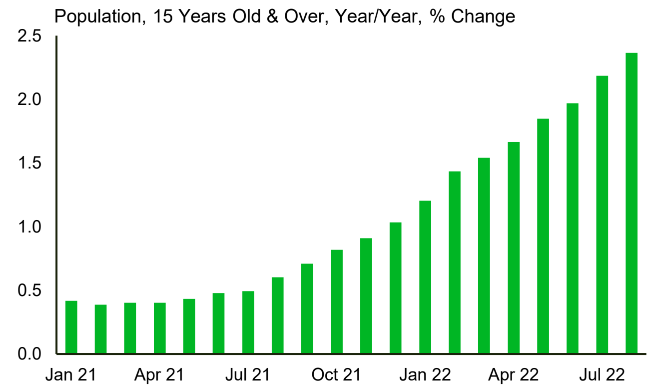
In its first quarter update, the New Brunswick government projected a $135.5 million surplus for the FY 2022/23 year due to higher tax revenues from extraordinarily strong population growth during the pandemic. Notably, government revenues will be spent on aid programs targeting inflation for low-income individuals and families. The $20-million aid package will benefit more than 75,000 residents and should provide some relief for New Brunswickers.

Chart 1: Lumber Prices Falling Sharply Due to a Slowdown in Demand



Source: Wall Street Journal, TD Economics

Chart 2: Population Growth is Increasing at Rapid Rates in New Brunswick



Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	1.4	0.3	0.6
Nominal GDP	6.7	4.1	2.6
Employment	1.7	0.4	-0.2
Unemployment Rate (%)	7.4	7.8	8.0
Housing Starts (000's)	4.2	2.2	2.0
Existing Home Prices	13.6	-14.7	4.1
Home Sales	-20.9	-10.4	20.0

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

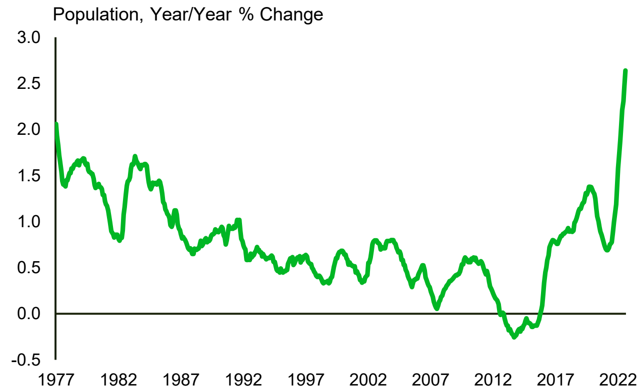
Nova Scotia

We've upgraded our 2022 growth forecast for Nova Scotia, bucking the nation-wide trend. Construction activity is on a tear, with building investment up 20% compared to its 2021 average. Indeed, homebuilding remains elevated, industrial construction is very strong, and commercial investment is continuing its recovery from the pandemic. What's more, the government is rolling out its record $1.6 billion capital plan through projects like the QEII Health Sciences Centre. Augmenting the strength in construction is the services sector. Re-openings and a hot housing market have spurred solid hiring in industries such as accommodation and food services and finance, and real estate. Meanwhile, job growth in professional, scientific, and technical services industries has been even stronger. In contrast, wholesale trade and retail spending have been relatively soft. Growth in manufacturing sales has also lagged the nation. However, they've held up well in the important tire manufacturing industry despite the ongoing softness in the North American auto market.

Record population growth (Chart 1) continues to significantly impact Nova Scotia's economy. While this dynamic should continue supporting consumption and investment over the projection horizon, it's also pressuring the province's rental market such that rents (up 6.4% year-on-year in August) are growing rapidly. More broadly, inflation in Nova Scotia is outpacing the nation overall. As a result, real wages are lagging. Accordingly, we are forecasting a significant slowdown in consumption beginning in the second half, which will exert a drag on overall growth next year. Beyond this, we are expecting very weak economic activity in Europe in 2023, which is important for Nova Scotia as over 10% of its exports are typically sent to the European Union (Chart 2). Interprovincial trade is also crucially important for Nova Scotia and the fact that we've materially downgraded our 2023 growth forecast for Canada doesn't bode especially well.

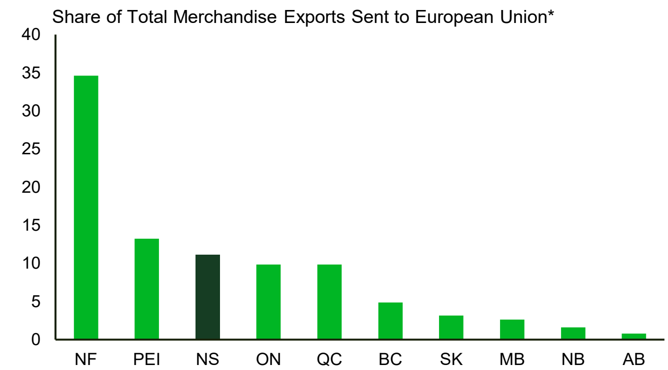
Relative to their peak, home prices have retrenched by the second most of any Atlantic province in Nova Scotia. Housing demand and prices will likely continue their descent into 2023 under the weight of higher interest rates and some likely post-pandemic normalization in population gains. This should have negative implications for output in the FIRE sector and will likely weigh on residential construction. Beyond this, the provincial government is forecasting almost no growth in inflation-adjusted spending for this fiscal year and beyond. This is material for Nova Scotia, as the public sector accounts for nearly one-third of GDP.

Chart 1: Explosive Population Growth in Nova Scotia Supporting Economic Growth



Source: Statistics Canada, TD Economics.

Chart 2: Slowdown in Europe has Material Impact on Nova Scotia's Exports



*Year-to-date. Source: Government of Canada, TD Economics.

Nova Scotia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	2.2	0.5	1.4
Nominal GDP	9.0	4.7	3.6
Employment	3.2	0.0	-0.1
Unemployment Rate (%)	6.8	7.6	7.9
Housing Starts (000's)	5.9	5.5	5.5
Existing Home Prices	11.3	-15.1	3.9
Home Sales	-20.5	-16.2	14.2

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

Prince Edward Island

The strongest population boom in history continues to profoundly impact PEI's economy (Chart 1). Importantly, it's helping supply the workforce that businesses on the Island require. In turn, employment has ballooned by 6% so far this year compared to its 2021 average, underpinning our upgraded 2022 growth forecast. By this calculation, there's been a surge in hiring by the private sector, boosted by industry re-openings. Not to be outdone, public sector job growth has also been very healthy.

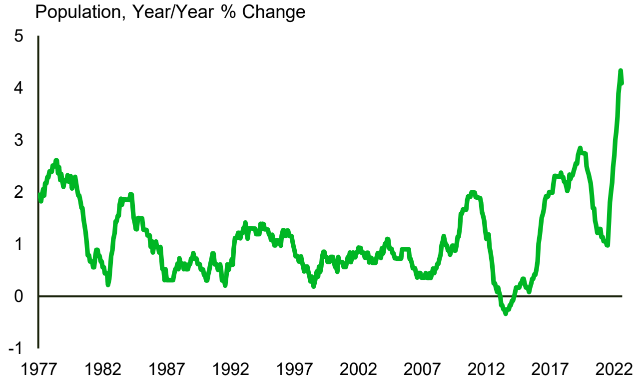
Tourism activity has also picked up in a major way, with the number of overnight stays up nearly 80% year-on-year in the first half. Meanwhile, manufacturing activity is surging in the wake of the lifted U.S. ban on potato exports and increased travel demand. The latter is showing up in robust growth in exports of turbines and propellers.

PEI's rapidly expanding population is also keeping the heat on construction activity. Although down from 2021's lofty level, building construction remains elevated and the province continues to roll out its lofty capital spending program. Rent inflation is yet another channel through which heady population growth making its presence felt, as it's running at the fastest pace in the country. Overall inflation is a huge problem for the Island, with it running at an 8% pace in August. As a result, real wage growth is also the weakest in the Canada (Chart 2). This portends a significant slowdown in consumer spending and is a big reason why we expect growth to ease considerably in 2023. Fortunately, energy prices will likely soften through next year, which should bring significant relief, as these items count for an outsized share of household budgets in PEI. This bodes better for household spending in 2024.

Households on the Island are not as indebted as most other provinces. However, their debt burdens (when scaled to income) increased by the most in the country during the pandemic, heightening their sensitivity to higher interest rates. This is yet another factor that should weigh on household spending moving forward, given that the Bank of Canada likely has more tightening to go.

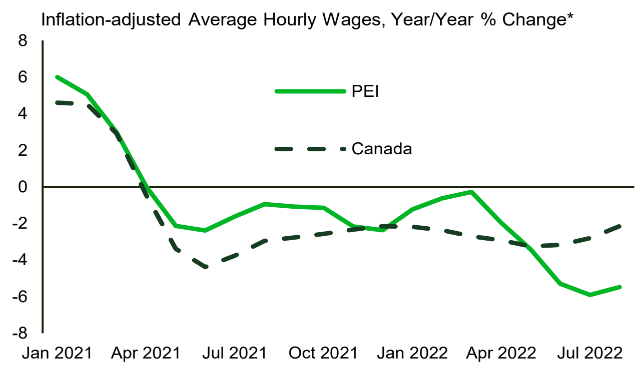
Europe's souring growth backdrop is important for PEI, as the province sends about 10% of its merchandise shipments to the EU in a typical year.

Chart 1: Generationally Strong Population Growth Having Profound Effects on PEI



Source: Statistics Canada, TD Economics.

Chart 2: Weak Real Wage Growth in PEI Portends Slower Consumption Going Forward



*Three-month moving average.
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	0.8	1.5
Nominal GDP	9.8	5.1	3.7
Employment	6.9	-0.5	0.0
Unemployment Rate (%)	7.3	8.3	8.9
Housing Starts (000's)	1.1	1.1	1.1
Existing Home Prices	13.5	-7.6	3.1
Home Sales	-18.0	-26.4	6.3

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

Newfoundland & Labrador

Bucking the trend of deep slowdowns across most provinces in 2023, economic growth in Newfoundland and Labrador is expected to accelerate next year from this year's modest pace.

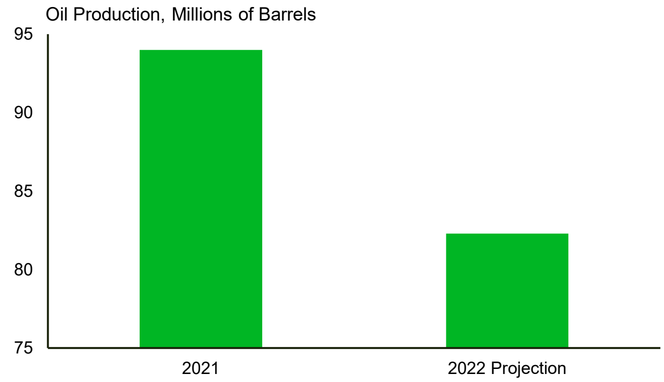
Prospects for the province's key oil industry are decidedly mixed. Although Brent oil prices have pulled back sharply from their recent peak, they are expected to hold above US$80 per barrel over the forecast period – a level that should remain supportive to cash flows and investment. However, the industry has been struggling with falling offshore oil production (Chart 1) and depleting reserves. As a result of declining production, government royalties are expected to fall to $866 million in FY 2022-2023, down from $1.13 billion this past fiscal year. There is some good news on the horizon, however, as the federal government gave the go ahead for the Bay du Nord offshore oil megaproject. In addition, a return to production is planned for the Terra Nova and White Rose production facilities later this year. As oil production receives a boost from these sources next year, government revenues should also see significant support, with the extent of it determined by how elevated prices remain.

Elsewhere, output in the province's non-energy mining industry is expanding, and construction on the province's new Valentine Lake gold mine will start this year, providing a lift to employment. This marks another step towards export diversification. Meanwhile, gold prices are projected to remain relatively high over the forecast period (Chart 2) as the commodity retains its status as an inflation hedge.

Higher interest rates should leave consumer spending growing at a slower rate, although an expanding population should offer some near-term support. The household debt-to-disposable income ratio in Newfoundland and Labrador increased in the first quarter of the year (to 171%), as households ramped up their borrowing partly in the face of elevated inflation. Nonetheless, the ratio is still lower than the national average of 194%.

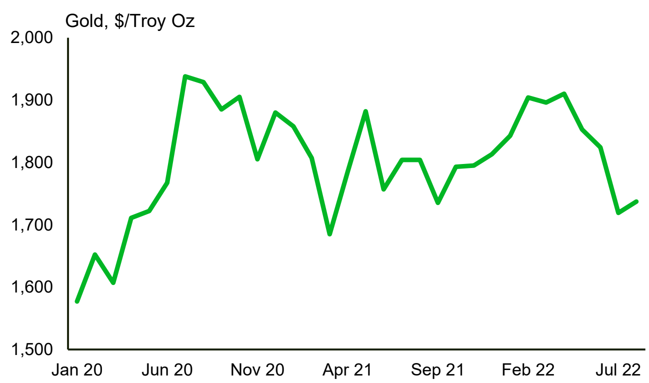
Amid very tight supply/demand balances in the province, average home prices have continued to climb since the broader Canadian market started retrenching in February despite the drag from higher interest rates. Meanwhile, home sales are above their long-term averages, reflecting solid affordability conditions in the province.

Chart 1: Oil Production in Newfoundland and Labrador is Projected to Decline Sharply in 2022



Source: Department of Finance, TD Economics.

Chart 2: Gold Prices Remain Elevated, Reflecting Their Status as an Inflation Hedge



Source: Wall Street Journal, TD Economics.

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2022	2023	2024
Real GDP	0.4	1.2	1.7
Nominal GDP	17.4	2.5	3.7
Employment	3.3	-1.3	-0.7
Unemployment Rate (%)	11.0	12.2	13.0
Housing Starts (000's)	1.8	1.1	1.1
Existing Home Prices	6.8	-1.8	3.6
Home Sales	-6.5	-16.0	10.6

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

Provincial Economic Forecasts

Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
National	**3.3**	**0.9**	**1.0**	**12.8**	**4.4**	**3.1**	**3.5**	**0.2**	**0.5**	**5.4**	**6.1**	**6.5**	**251.3**	**205.8**	**202.2**	**0.2**	**-11.2**	**6.1**
Newfoundland & Labrador	0.4	1.2	1.7	17.4	2.5	3.7	3.3	-1.3	-0.7	11.0	12.2	13.0	1.8	1.1	1.1	6.8	-1.8	3.6
Prince Edward Island	2.8	0.8	1.5	9.8	5.1	3.7	6.9	-0.5	0.0	7.3	8.3	8.9	1.1	1.1	1.1	13.5	-7.6	3.1
Nova Scotia	2.2	0.5	1.4	9.0	4.7	3.6	3.2	0.0	-0.1	6.8	7.6	7.9	5.9	5.5	5.5	11.3	-15.1	3.9
New Brunswick	1.4	0.3	0.6	6.7	4.1	2.6	1.7	0.4	-0.2	7.4	7.8	8.0	4.2	2.2	2.0	13.6	-14.7	4.1
Québec	3.4	0.6	0.7	9.7	5.1	2.8	2.2	-0.2	0.0	4.6	5.6	6.1	62.1	47.2	43.0	8.5	-7.6	4.6
Ontario	2.9	0.7	1.0	9.5	5.0	3.2	4.4	0.3	0.6	5.6	6.3	6.7	85.2	80.9	81.7	3.8	-12.3	4.4
Manitoba	3.6	1.2	1.4	12.4	3.7	3.5	2.3	0.0	0.4	4.7	5.2	5.5	7.5	5.2	5.1	7.0	-7.0	4.0
Saskatchewan	4.9	1.6	1.6	28.1	2.6	3.7	3.4	0.2	0.2	4.7	4.8	5.3	4.5	3.7	3.7	1.5	-3.3	5.0
Alberta	4.9	1.8	1.4	26.5	3.3	3.4	4.7	0.9	1.0	6.0	6.1	6.4	36.2	26.5	26.4	3.1	-6.7	5.2
British Columbia	3.1	0.8	0.9	11.9	4.0	3.0	2.8	0.2	0.8	5.0	5.6	5.7	42.8	32.4	32.6	4.8	-9.4	4.5

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