

Provincial Economic Forecast

The Provincial Pulse is Slowing, But the Beat Goes On

September 20, 2023

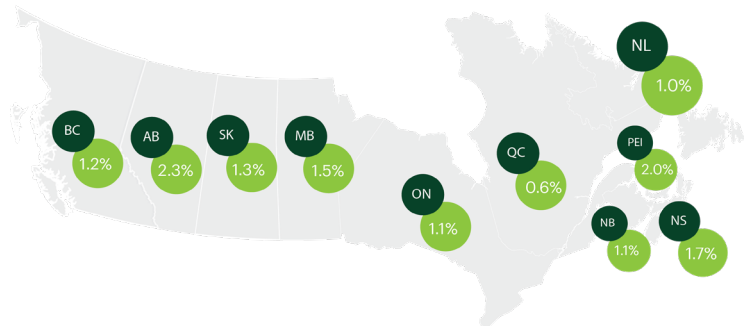
Contributing Authors

- Beata Caranci, Chief Economist | 416-982-8067
- Rishi Sondhi, Economist | 416-983-8806
- Derek Burleton, Deputy Chief Economist | 416-982-2514
- Marc Ercolao, Economist

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- The 2023 provincial growth outlook suffered a blow when the National Accounts revealed a disappointing (though mild) contraction in Q2 Canadian GDP. With the national bar set lower, we've downgraded estimated growth performances across most regions. Looking further out, with no provinces immune to the growing impact of this year's rate hikes, we expect growth to broadly remain muted in 2024.
- Widespread wildfires and other climate events have introduced distortions into recent economic data. Not all of the Q2 contraction is attributed to these events, but activity in key sectors namely oil production, mining, forestry, and agriculture suffered temporary setbacks. We expect a swift rebound in the near term across these affected industries with no substantial effects on national level growth this year.
- Housing market performances since the Bank of Canada resumed their rate hiking campaign have been as we had anticipated, with Ontario and B.C. on the weaker end and the Prairies on the other. Over the next couple of quarters, we see this pattern being maintained as the impact of high borrowing costs faces off against ongoing strong population growth. Next year, rate relief should support widespread gains in home sales and prices.
- More specifically, we assume population growth in most parts of the country will continue at a brisk, albeit slowing pace. The impulse from higher population counts will help to mitigate the risk of recession across the country even as provincial unemployment rates remain on the rise. Alberta and the Atlantic provinces stand to benefit more from durable migrant inflows as relative affordability remains an attractive selling point.
- After a blowout third quarter, U.S. economic growth is poised to slow markedly through 2024, imparting an export drag across all provinces. Meanwhile, soft Chinese growth prospects could weigh on shipments, particularly in B.C., Saskatchewan, Manitoba and Nova Scotia.
- Commodities markets, notably crude oil, are staging a mid-year rebound. Risks to the outlook appear balanced, as China's fading momentum is squaring off with resilient global demand. Most commodity prices are still expected to remain elevated, providing a solid floor for activity in commodity producing provinces.

Provincial Real GDP Growth Forecast (2023)



Source: TD Economics. Forecast as of September 2023.

For more details on our national forecast see our [Quarterly Economic Forecast](#)

British Columbia

British Columbia (B.C.) has faced more than its fair share of idiosyncratic shocks this year, including a disruptive port worker strike in July and devastating wildfires this summer. Despite these events, B.C. is the only provincial economy to avoid a mark down to its 2023 growth forecast, owing largely to a surprising bounce in housing activity earlier this year and ongoing resilience in consumer spending. Still, after expanding at a nation-matching 1.2% this year, we expect B.C.'s economy to endure a more pronounced downswing in 2024.

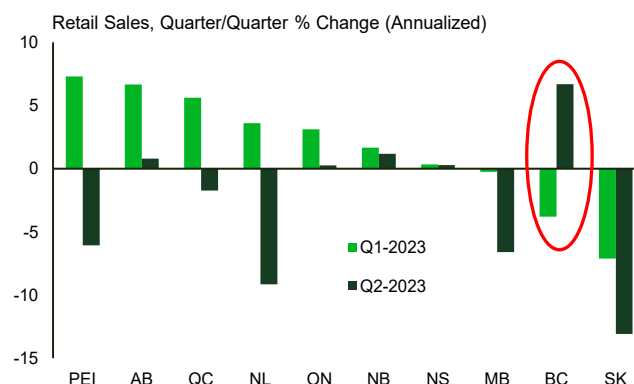
Revived momentum in housing activity in the first half of 2023 can be attributed to the Bank of Canada's earlier decision to pause interest rate hikes. Housing resale volumes in the second quarter handily outpaced all provinces, rising over 30% q/q, even as listings pulled up to pre-pandemic levels. Since the summer, however, interest rates have renewed their upward track. With affordability remaining a real pressure point, we expect housing activity to continue to cool into 2024 before regaining a modest footing in the second half of next year.

After starting the year on a cautious note, consumers in the province have been showing their mettle. Nominal retail spending bounced back in a meaningful way in the second quarter after slipping 4% annualized in the prior quarter (Chart 1). What's more, internal TD spending data points to decent household spending strength extending into the July-August period. However, with the province's households facing the highest average debt burdens in the country and a growing squeeze from elevated interest rates, it is only a matter of time before the latest spending spurt runs out of gas.

More pronounced slowing has been seen in the labour market. Job growth in the Jan.–Aug. period slowed to a more pedestrian 1.3% y/y, below the national pace (Chart 2). In coming quarters, we're expecting a further flattening in employment gains to collide with relatively brisk labour force growth, pulling up the province's unemployment rate to a peak level of around 6.4% next year.

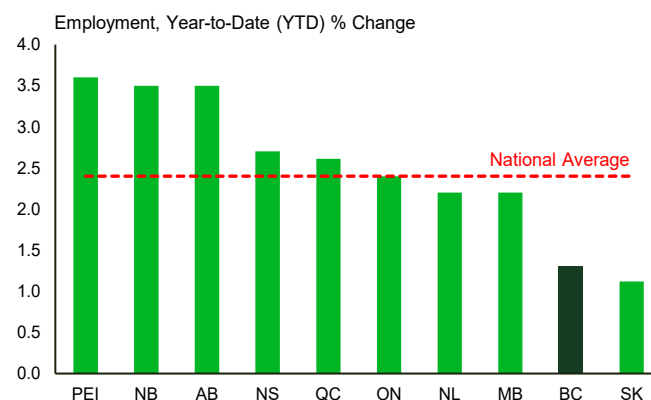
In the near term, B.C.'s trade sector will benefit from the end of the port workers strike and efforts to work through backlogs. Further out, exporters will face a double-whammy of both a slowing U.S. economy and the ongoing struggles in China. Among the provinces, 15% of B.C. exports are destined for China, well above the sub-5% share of Canada as a whole.

Chart 1: B.C. Consumer Showing Some Fight



Source: Statistics Canada, TD Economics.

Chart 2: British Columbia's Labour Market Is Slowing



Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	1.2	0.5	1.7
Nominal GDP	1.4	3.2	3.9
Employment	1.1	0.1	1.3
Unemployment Rate (%)	5.2	6.2	5.9
Housing Starts (000's)	47.9	39.2	38.5
Existing Home Prices	-1.4	1.2	2.5
Home Sales	-7.9	6.8	18.4

Source: Statistics Canada, CMHC, CREAA, Forecast by TD Economics.

Alberta

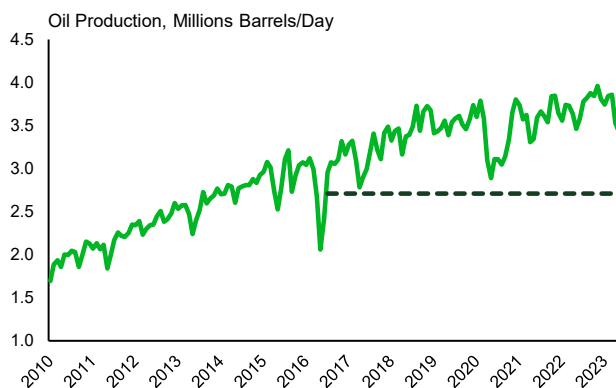
Alberta's economy still holds the top spot on the provincial GDP growth chart in 2023. This comes even as the impacts of severe wildfires and shutdowns for general maintenance temporarily stunted activity in the oil sector earlier this year. Oil output dropped 15% in the second quarter, hitting its lowest level since mid-2016, when producers were recovering from the Fort McMurray wildfires (Chart 1). Looking ahead, a swift bounce back in production this autumn will set the stage for growth in oil output in 2024. That said, the recently announced delay of around 6 months in the start-up of the Trans Mountain Pipeline could push some of that upward momentum into 2025.

The crude oil rally over the past few months has been supportive for Alberta's public finances. In its latest quarterly fiscal update, the Alberta government trimmed its FY 2023-24 estimate for WTI to US\$75/bbl, but we believe oil prices will overshoot that level by US\$5, equivalent to a windfall of \$3.1 billion based on budget sensitivities. Moreover, Alberta's benchmark WCS price spread to WTI is holding a \$15/bbl average for the year, in line with the Province's own projection. The fiscal update also shows Alberta on track to record a \$2.4-billion surplus this year, a modest increase from the surplus forecasted in February.

Any negative impact on real GDP from lost oil production this year is being made up from robust population and job creation, which in turn is supporting consumer demand. At last count (Q1-23), Alberta posted the second fastest total net migration among the provinces (+52,000), with 30 percent of that count attributed to interprovincial migrants (Chart 2). What's more, these gains appear to have some staying power, as migrants continue to flock to Wild Rose Country to take advantage of relatively affordable housing and still-decent economic prospects.

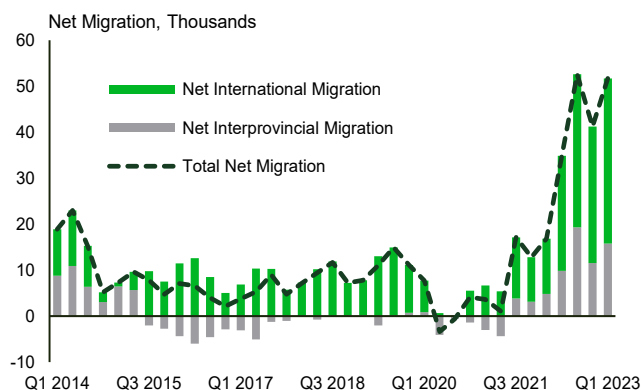
Alberta only trails PEI in year-to-date employment growth. With gains in the labour force managing to keep up, the unemployment rate has moved essentially sideways so far in 2023. However, a slippage in the number of job vacancies in Alberta in recent months suggests that labour demand has peaked, auguring for some cooldown in hiring and spending in the months ahead. Given their relatively high average debt levels, Albertan's were likely disproportionately hit by the additional 50 bps of tightening delivered by the Bank of Canada (BoC) in June and July.

Chart 1: Alberta's Oil Production Hit 2016 Levels



Source: Alberta Energy Regulator, TD Economics.

Chart 2: Immigration Is Driving Alberta's Population Growth



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	2.3	1.2	1.9
Nominal GDP	-1.1	3.9	3.8
Employment	3.5	1.0	1.0
Unemployment Rate (%)	5.9	6.5	6.6
Housing Starts (000's)	31.3	29.8	30.3
Existing Home Prices	0.8	4.4	3.9
Home Sales	-7.2	8.3	3.1

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

Saskatchewan

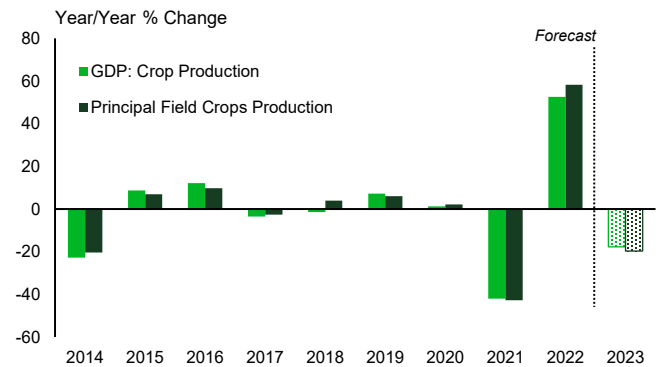
Weaker-than-expected production estimates for key crops and potash are the main culprits driving a 1.1 percentage point markdown to Saskatchewan's 2023 GDP growth. This downgrade is the largest amongst provinces and brings this year's GDP estimate to 1.3%, roughly in line with the national average. An underperforming labour market is also adding fuel to the fire, as tepid employment growth this year has translated to relatively weak consumer spending. That said, we expect activity to bounce back in 2024, pushing up Saskatchewan to the top of the provincial growth charts.

Seeding for staple crops earlier this year had gone according to plan. However, unfavourable growing conditions could see Saskatchewan's principal crop production fall by around 20% according to Statistics Canada's model-based field crop estimates. Outside of 2020, when yields slid roughly -40% on the back of drought and potash shortages, this year's projected pull-back would mark the largest since 2014 (Chart 1). This will have outsized effects on GDP as the agricultural sector accounts for roughly 8% of the province's output compared to 2% for the nation as a whole.

Potash production was slated to increase this year, albeit at a slower clip relative to last, as persistent geopolitical tension stoked global demand for product. However, production is now on track to take a slight step back as key producers curtailed output in response to the Vancouver port strikes. While still at healthy levels, potash prices have come under pressure since peaking in the spring of 2022. On a positive note, BHP has announced that it will accelerate the Jansen project spending this year. Construction outlays are planned to rise by almost \$500 million as crews work to start the mine in late 2026 instead of in 2027 as earlier planned.

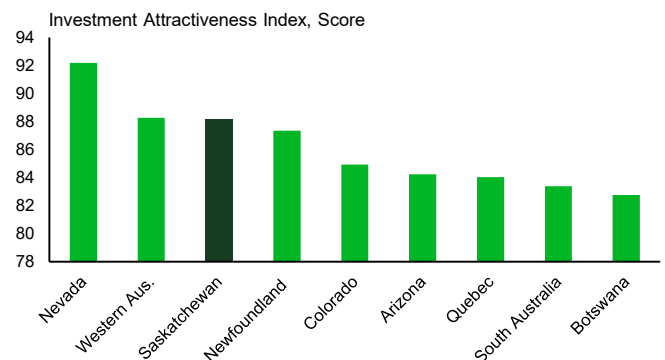
As one of Canada's major commodity producers, Saskatchewan stands to benefit from the tailwinds of durable and still-elevated commodity prices. WTI crude prices are expected to hold in the healthy \$75-\$85 range over the next few years, supported by OPEC production discipline. Unlike Alberta and Newfoundland, oil production is projected to advance this year. Elsewhere, uranium prices have recently notched 12-year highs which will support output at the Cigar Lake mine and Key Lake. Abundant critical mineral resource deposits, backed by a strong regulatory environment and competitive royalty and investment incentives, will continue to attract mining investment to the province (Chart 2). Lastly, housing affordability is good relative to other jurisdictions which should support demand in the near-term.

Chart 1: Poor Crop Yields Will Drag Down Saskatchewan's 2023 GDP Growth



Source: Statistics Canada, TD Economics.

Chart 2: Saskatchewan Ranks Third in the World for Attractiveness in Mining Sector Investment



Source: Fraser Institute Annual Survey of Mining Companies (2022), TD Economics.

Saskatchewan Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	1.3	1.5	1.2
Nominal GDP	-1.6	3.8	2.9
Employment	1.0	0.1	0.8
Unemployment Rate (%)	4.9	5.5	5.4
Housing Starts (000's)	4.1	3.8	4.5
Existing Home Prices	0.2	3.0	4.2
Home Sales	-0.8	4.2	3.1

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

Manitoba

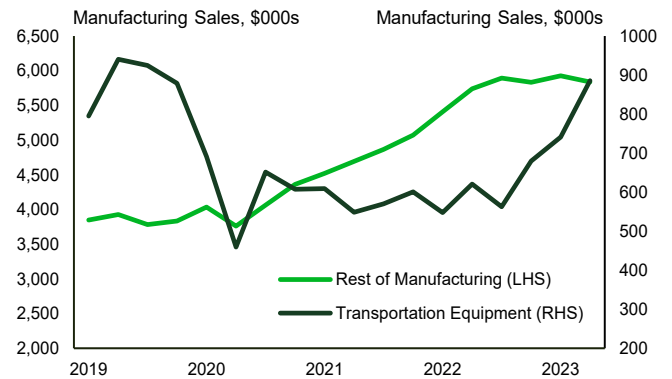
We look for Manitoba to turn in a modest middle-of-the-pack growth performance this year. Manitoba's outsized public sector has continued to flex its spending muscle, with employment in the sector up 2% so far this year. That said, we expect the contribution from this area to ease going forward, in line with provincial spending plans as the government aims to slowly chip away at a deficit estimated at around 0.2% of GDP. Manitoba's economy also seems to have avoided some of the worst impacts from weather events which have plagued other provinces.

Manitoba's manufacturing sector is enjoying a solid year, but much of this strength can be chalked up to a huge gain in transportation equipment, as global supply chains have improved (Chart 1). Moving forward, growth is set to cool partly on the back of weaker U.S. activity. Interprovincial trade prospects should also dim as growth slows from coast-to-coast, most notably in Ontario, which is Manitoba's largest provincial export destination. The B.C. port strikes delayed shipments of grains and other items, but the impact was likely small and only temporary.

Manitoba's relatively highly indebted households are set to feel an increasing burden from elevated borrowing costs, which will slow consumption in the province. Indeed, TD's internal credit and debit card data suggests that some cooling is already taking place. That said, the province rolled out significant tax reductions in its budget (ahead of this October's election), which should support household incomes. In addition, housing market activity remains resilient in the face of BoC rate hikes, with sales climbing by double-digits since May (Chart 2). Manitoba's housing market didn't see the same price increase as in other parts of the country during the pandemic, which has limited the erosion in affordability. In turn, relatively strong home price growth is projected to persist over the forecast horizon.

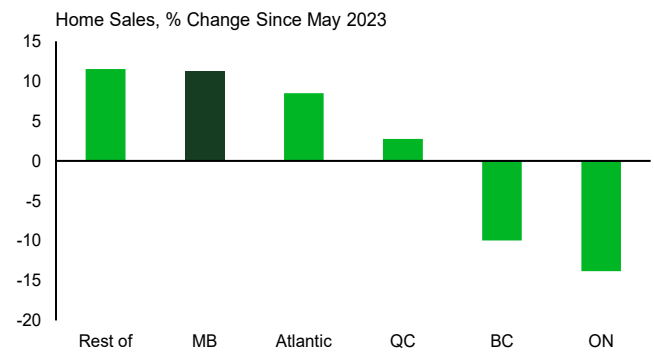
We see construction subtracting from Manitoba's growth in 2023 and 2024. Higher interest rates have slowed residential building so far this year, offsetting a pickup in non-residential building activity, and we expect further reductions into 2024. Meanwhile, the provincial government's capital spending plan points to significantly reduced expenditures starting in FY 2024/25. In the agricultural sector, production data also points to lower output this year. Notably, prices for key crops like canola and wheat remain above pre-pandemic levels, although the latter has fallen, even amid concerns about Ukrainian supply.

Chart 1: Transportation Sector Behind Robust Gain in Manitoba's Manufacturing Sales



Source: Statistics Canada, TD Economics.

Chart 2: Manitoba's Housing Market Resilient in the Face of BoC Hikes



Source: Canadian Real Estate Association, TD Economics.

Manitoba Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023F	2024F	2025F
Real GDP	1.5	1.0	1.3
Nominal GDP	2.6	3.6	3.1
Employment	2.2	0.8	1.0
Unemployment Rate (%)	4.9	5.4	5.2
Housing Starts (000's)	7.4	5.5	6.0
Existing Home Prices	-2.3	4.5	3.4
Home Sales	-8.1	6.6	10.8

Source: Statistics Canada, CMHC, CRE, Forecast by TD Economics.

Ontario

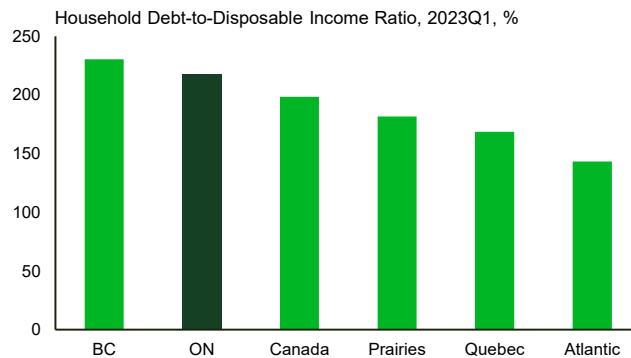
After a strong start to the year, Ontario's economic growth likely cooled markedly in the second quarter. Still, we think that Ontario was able to modestly outperform Canada overall over the April-June period, supported by a rejuvenation in housing market activity as well as relative strength in job growth and exports.

Household incomes and spending have been padded in the near-term by government support payments. We also see consumption being boosted by rising auto sales as pent-up demand is satiated. Even with these tailwinds, the resilience of household spending is being tested by rising debt servicing charges. Ontario's households are highly indebted (Chart 1), meaning that they'll have to dedicate an increasingly large share of their incomes towards debt servicing as we move through next year. With Ontario's households so vulnerable, we foresee weak consumer spending moving forward, which should keep the province's growth prospects relatively muted.

A downshift in manufacturing exports is also likely to weigh on growth going forward. Weaker external demand should slow activity. We also foresee lower auto assemblies in Ontario next year, as output is taken offline at a few key plants in order to retool for electric vehicle (EV) production. That said, automotive parts manufacturing should manage to gain some ground in 2023 and 2024, with this year's turnout benefitting from a continental-wide pickup in auto output and next year from the startup of the Windsor EV battery plant. However, strikes in the U.S. against the "Detroit 3" automakers pose a major downside risk to Ontario's highly integrated auto industry, should they persist for more than a few weeks. In Canada, negotiations between workers and the automakers are ongoing.

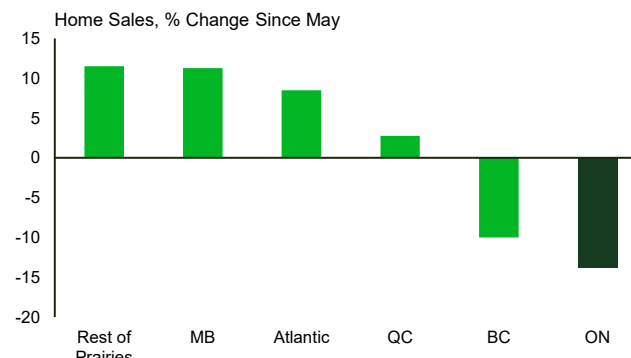
A surge of immigrants and non-permanent residents continues to fuel multi-decade highs in Ontario's population growth. Even with this robust expansion, Ontario's home sales have dropped the most of any province since the Bank of Canada resumed hiking rates in early June, falling by 14% (Chart 2). Moving forward, we see average home prices turning in a flattish performance in the third quarter, before declining in the final months of the year. Next year should bring better fortunes for home sales and prices as interest rates drop, although the worst affordability back-drop in at least 35 years should restrain growth.

Chart 1: Ontario's Highly Indebted Households Vulnerable to High Interest Rates



Source: Statistics Canada, TD Economics.

Chart 2: The Impact of BoC Hikes Has Really Shown Up in Ontario's Housing Market



Source: Canadian Real Estate Association, TD Economics.

Ontario Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023F	2024F	2025F
Real GDP	1.1	0.4	1.5
Nominal GDP	3.6	3.1	3.5
Employment	2.4	0.2	1.1
Unemployment Rate (%)	5.6	6.8	6.8
Housing Starts (000's)	93.1	84.7	86.8
Existing Home Prices	-5.3	-0.5	2.7
Home Sales	-13.2	3.0	27.0

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

Québec

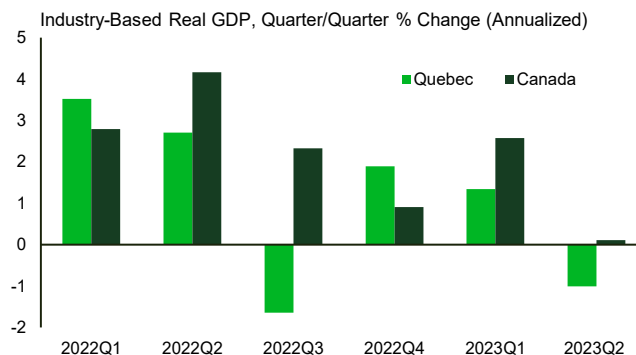
Québec's economy suffered a significant setback in the second quarter, as GDP likely declined further than the small dip observed nation-wide (Chart 1). Part of this weakness can be traced to the mining sector, where production was curtailed in the wake of severe wildfires. Accordingly, a near-term snapback in activity is anticipated in this sector. Meanwhile, fiscal support payments are boosting household incomes and consumption, supporting our expectation of a positive, yet modest, third quarter GDP print.

Québec's economy has shifted into a much softer growth trajectory since the second half of last year. Homebuilding has been a large drag on growth over this time, with the industry pulling back after a period of very robust activity, despite moderate population growth. The weakness in residential construction has likely spilled over into the manufacturing sector, which has been the other major anchor on growth since the second half of 2022. This is evidenced by declining shipments of wood, mineral and metal products (which are used extensively by the construction industry).

The backdrop will likely remain challenging for these two sectors (which together represent about 15% of GDP) through next year, as a softer external demand weighs on shipments of manufactured items, while high borrowing costs and past declines in home sales continue to restrain residential building. Elsewhere, larger industries within Québec include the public sector - where we see output growth slowing in line with provincial program spending plans - and the finance, insurance, and real estate industry. This latter sector should see improved fortunes next year (after a modest performance in 2023) as Bank of Canada rate cuts eventually boost home sales in the province.

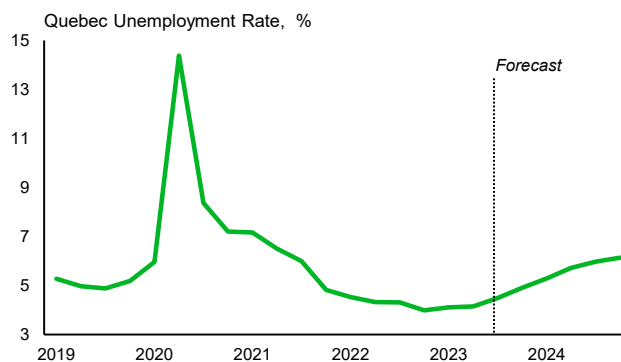
The one-two punch of higher borrowing costs and cooling job markets should conspire to slow household spending going forward. Québec's unemployment rate is the lowest in the country, but we see it climbing 1.6 ppts by the end of next year in response to weak economic growth (Chart 2), thereby loosening job markets and cooling wage gains. Household savings pools have also dwindled, as Quebecers dipped into their nest eggs to finance surging consumption through most of 2022 and the early part of this year. As already noted, Québec is not seeing the same level of support to consumption from population growth as other parts of Canada. And this is unlikely to change over the next several years.

Chart 1: It's Been A Tough Stretch for Quebec Over the Past Year



Note: Quebec's 2023Q2 growth rate is estimated by TD Economics.
Source: Quebec Government, Statistics Canada, TD Economics.

Chart 2: Weaker Economic Growth to Cool Quebec's Job Market



Source: Statistics Canada, TD Economics.

Québec Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023F	2024F	2025F
Real GDP	0.6	0.6	1.0
Nominal GDP	2.9	3.4	3.0
Employment	2.1	-0.5	0.5
Unemployment Rate (%)	4.4	5.8	6.1
Housing Starts (000's)	40.2	41.7	45.6
Existing Home Prices	0.6	2.5	3.0
Home Sales	-11.7	5.0	6.0

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

New Brunswick

After lagging national level growth by almost two percentage points last year, we expect New Brunswick's (NB) economy to register middle-of-the-pack performances in both 2023 and 2024. Relative to most other regions, we see less downside to NB growth on the horizon largely reflecting an outlook for continued record-setting population gains and resilient consumer spending. With households sporting the lowest average debt-to-GDP ratio versus provincial peers, consumers will be better shielded against sharply higher borrowing costs. At the same time, however, the external backdrop is expected to pose headwinds.

Population gains have been helping to sustain strength in both employment and the labour force, which are running at near national highs year-to-date (Chart 1). The swelling headcount last year had done its part in alleviating labour shortages, but vacancies have seen a resurgence in recent months. In fact, as shown in Chart 2, New Brunswick's job vacancy rate recently pulled ahead of the national count after trailing throughout much of the pandemic. Of all major Census Metropolitan Areas (CMA) across Canada, Moncton's population growth of 5.4% is the fastest rate since 2009. Against this backdrop, we still see room for above-average employment gains for the remainder of the year before labour markets come back into balance next year.

The external backdrop has taken some wind out of the economy's sails as nominal exports this year are down over 10%. Over 90% of the province's international exports are shipped south of the border, where the economy is expected to decelerate into 2024. Irving Oil Ltd., the operator of Canada's largest crude oil refinery in NB, is currently under strategic review, which has likely impacted oil shipments since June. Interprovincial shipments – which account for over half of total exports – are also expected to soften as Canadian domestic activity slows. Manufacturing activity is also lagging all other provinces, down 13% on the year.

The New Brunswick government's fiscal backdrop continues to be healthy. In its first quarter fiscal update, the government revealed a projected surplus of \$200 million for FY 2023-24, well above the \$40 million estimate outlined in February's Budget. Combined with a net debt profile that ranks the lowest among provinces east of Saskatchewan, the government is well positioned to support growth into next year's cyclical slowdown.

Chart 1: New Brunswick Amongst Leaders in Employment and Labour Force Growth in 2023

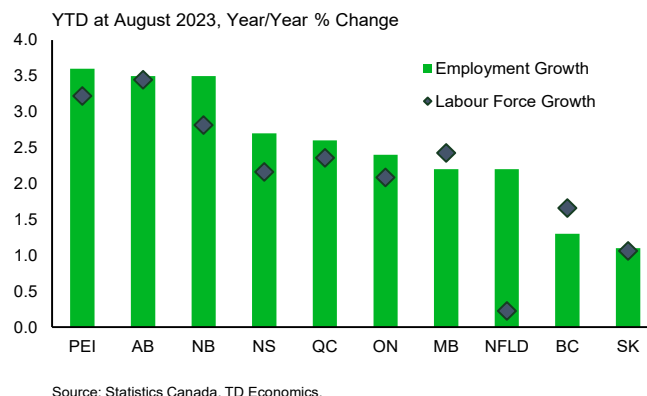
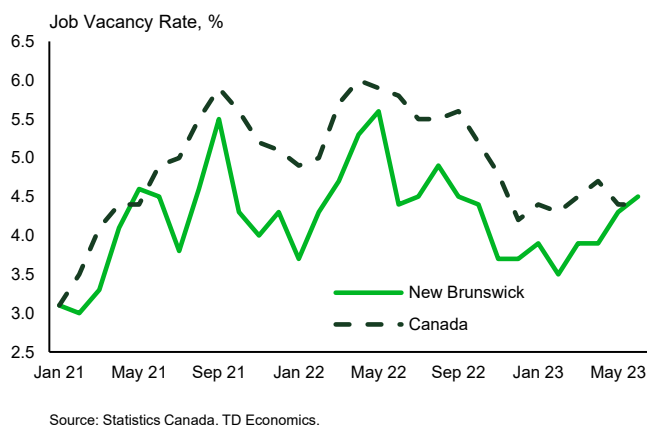


Chart 2: New Brunswick Job Vacancies Accelerating



New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	1.1	0.7	1.0
Nominal GDP	2.1	2.9	3.0
Employment	3.1	0.7	0.3
Unemployment Rate (%)	6.7	7.4	7.6
Housing Starts (000's)	3.6	2.2	2.6
Existing Home Prices	3.6	3.9	3.0
Home Sales	-13.4	4.9	12.3

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

Nova Scotia

Population growth continues to break records in Nova Scotia (Chart 1), supporting our view that GDP growth in the province will outperform the rest of Canada this year. Not only is Nova Scotia's population swelling through immigration and a massive intake of non-permanent residents, but the province continues to attract newcomers from other parts of Canada. These robust population gains are helping companies find suitable workers, powering solid employment gains and leaving job markets looser than other parts of Canada. In addition, a rapidly expanding population has fueled construction spending and kept housing demand elevated. Indeed, home prices were some 70% above their pre-pandemic level in August (amongst the largest gap of any province) and have increased since the Bank of Canada begun hiking rates. What's more, household spending in Nova Scotia has held firm (Chart 2), as the province has welcomed some 40k would-be consumers in the past year.

Even with the tailwind coming from a ballooning population, we still see consumption moderating in the second half of this year and 2024, as the full weight of the Bank of Canada's interest rate hiking campaign bears down on consumers. That said, households are carrying relatively low debt levels, which should shield them to a degree. A much weaker trade backdrop is another factor that we think will slow Nova Scotia's economic growth moving forward as U.S. growth likely eases beginning in the fourth quarter. Activity in China (Nova Scotia's 2nd largest export market) is already cooling, but the Chinese ban on Japanese seafood could help the province's prospects if China looks to Nova Scotia to fill some of its demand.

It's been jumping from the frying pan into the fire for Nova Scotia in terms of dealing with extreme weather events. Along with the challenges stemming from Hurricane Fiona and post-tropical storm Lee, in the last few months the province has dealt with record wildfires and massive flooding in Halifax and surrounding areas. While the human toll from these events is heavy, from an economic growth accounting perspective, the rebuilding activity that takes place in their wake adds to GDP. By our estimates, rebuilding efforts will add at least 0.1 ppt this year. This is after taking into consideration the drag from the temporary closure of the main rail line to the Port of Halifax, which was caused by flooding.

Chart 1: Record Breaking Population Growth Stoking Nova Scotia's Economy

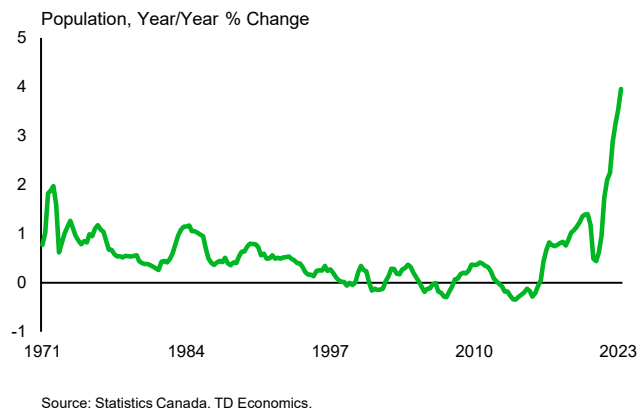
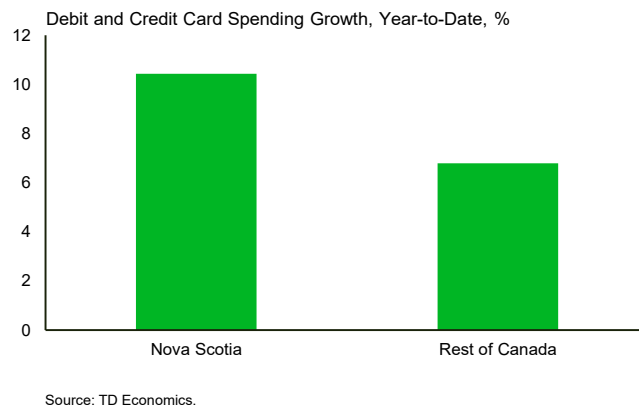


Chart 2: Solid Job Growth Boosting Household Spending in Nova Scotia



Nova Scotia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2023F	2024F	2025F
Real GDP	1.7	1.0	1.4
Nominal GDP	4.0	3.7	3.4
Employment	2.1	0.3	0.6
Unemployment Rate (%)	6.5	7.1	6.9
Housing Starts (000's)	6.0	5.5	5.7
Existing Home Prices	3.2	2.7	2.5
Home Sales	-18.9	4.1	15.6

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

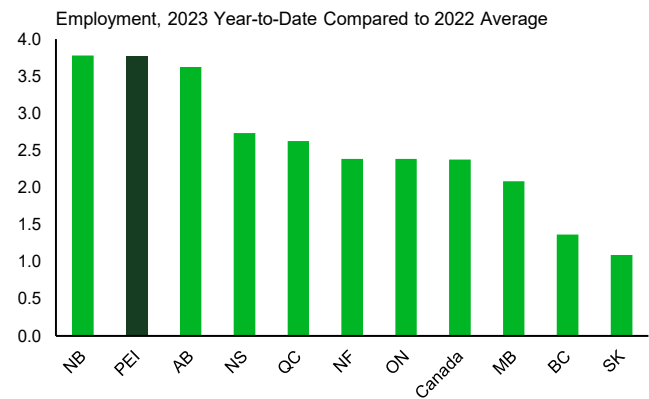
Prince Edward Island

The ongoing and massive expansion of PEI's population has had transformative impacts for the Island and is a dominant factor behind the province's resilience this year. Perhaps most notably, PEI's median age has dropped for six straight years due to a swell of younger international arrivals, defying the nation-wide trend. Employers are benefitting from this influx of job seekers, with employment growing at the second fastest pace in the country so far this year (Chart 1). Household spending has also seen a big boost, with our internal card spending data pointing to an inflation-adjusted gain of about 7% so far in 2023. Moving forward, some cooling in household spending is expected, as higher borrowing costs cause weaker consumption. This should weigh on hiring, and accordingly, we see PEI's unemployment rate climbing about 1 ppt from its estimated third quarter average by the end of 2024.

These record inflows have also left an indelible imprint on the Island's housing market, where rents are up 30% since the early part of 2016 (even with the PEI government implementing a rent freeze for this year), fueled by a massive increase in international students. Meanwhile, in the ownership housing market, population growth has helped sustain prices 40% above their pre-pandemic level, including a 3% gain since the Bank of Canada resumed their rate hike campaign. Going forward, we see average home prices holding the line this year and increasing in 2024.

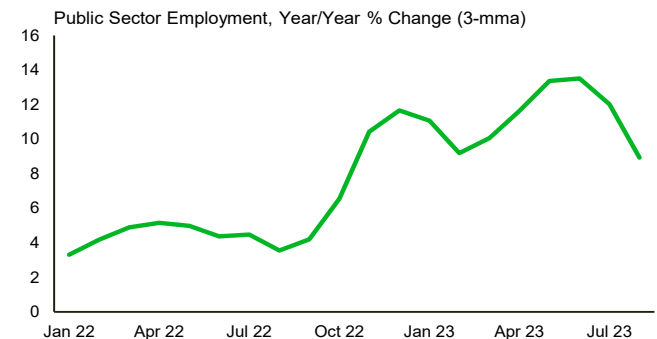
Manufacturing and the public sector are making important contributions to growth this year. Factory sales are up 10% from their 2022 average so far in 2023. Meanwhile, in the public sector, hiring has advanced at a double-digit year-on-year pace in nearly every month this year (Chart 2). However, we see these sectors losing a considerable amount of steam moving forward. For one, the external backdrop is likely to turn much tougher for trade as U.S. growth eases and domestic activity slows. Notably, this will also weigh on tourism activity. Public sector spending, meanwhile, is set to gear down over the next couple of years, diminishing its contribution to growth. This is particularly salient for PEI, as the government typically accounts for nearly one-third of overall output. After two solid years, provincial capital spending is set to decline in 2025, weighing on the construction sector that year.

Chart 1: Population Growth Fueling a Hiring Surge in PEI



Source: Statistics Canada, TD Economics.

Chart 2: The Government Sector Making an Important Contribution to PEI's 2023 Growth



Source: Statistics Canada, TD Economics.

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	2.0	1.3	1.9
Nominal GDP	4.4	4.0	3.9
Employment	4.6	1.6	0.6
Unemployment Rate (%)	7.6	8.4	8.5
Housing Starts (000's)	0.9	1.1	1.2
Existing Home Prices	0.1	1.5	1.9
Home Sales	-4.1	5.0	15.2

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

Newfoundland & Labrador

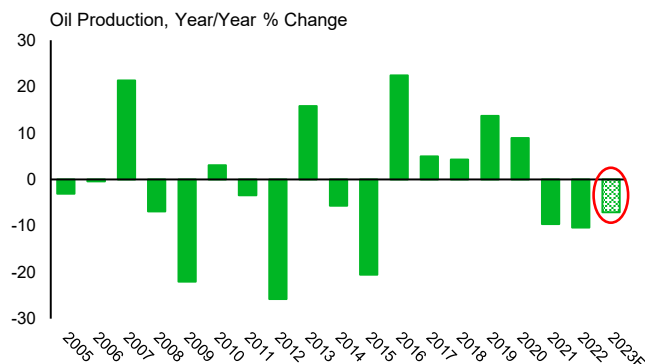
Weak activity in the oil and mining sector drove Newfoundland and Labrador's (NL) real GDP into contraction territory last year – the only province to take a step backward. We don't anticipate another decline in output, but continued lackluster oil and mining production remains the theme and will drive further underperformance compared to the nation this year. This is expected to be followed up by a more solid growth showing in 2024.

A bounce back in the oil sector was contingent on a Terra Nova restart, but that momentum has been punted into next year as Suncor put a lid on production plans for 2023. Project partners have not yet provided an exact timetable for the resumption of operations; however, there is reason for optimism as the vessel was returned to sea in mid-August. As Chart 1 shows, overall crude production is due for another sizeable contraction this year as Terra Nova's restart deferral collided with scheduled maintenance to White Rose and Hebron. Oil and gas output as a share of total GDP accounts for just shy of 30%, more than any other province.

On the mining front, a sharp pull-back in prices relative last year's peak levels for iron ore, nickel and copper have weighed on mineral shipments so far this year, which are on track to decline by 10–15% for 2023 as a whole (Chart 2). Despite the pullback, the mining sector remains a medium-term bright spot for Newfoundland's economy as mineral exploration expenditures hit a 10-year high in 2022, reaching \$243 million. Further, as part of an ongoing commitment to position NL as a globally preferred location for green economic investment, the Province introduced a new Green Transition Fund. This fund will provide support to projects for businesses and other entities to assist with the transition to a green economy.

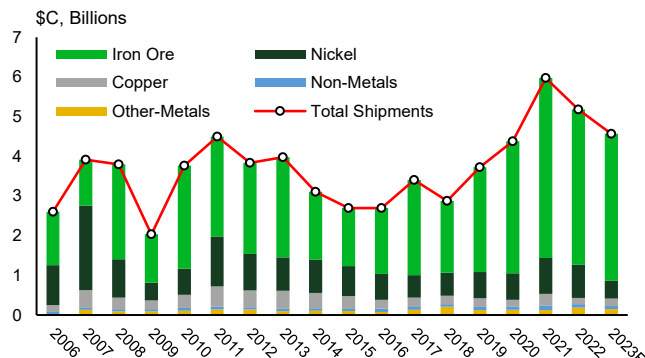
The performance of domestic-oriented industries, on the other hand, has held up comparatively well notwithstanding the Bank of Canada's aggressive rate hiking campaign. Fairly robust employment and population gains this year have supported consumer spending. Notably, our internal data on debit and credit card transactions show NL households outpacing all other provincial counterparts in terms of growth in year-to-date outlays. Although both domestic spending and job gains will likely moderate in the coming months, we still expect the unemployment rate to notch a record low on average this year.

Chart 1: Newfoundland & Labrador's Oil Production Will Be a Drag on 2023 GDP



Source: Government of Newfoundland & Labrador, TD Economics.

Chart 2: Newfoundland & Labrador's Mineral Shipments Set for Another Contraction



Source: Newfoundland & Labrador Department of Industry, Energy, & Technology, TD Economics.

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2023F	2024F	2025F
Real GDP	1.0	1.3	1.5
Nominal GDP	-1.9	3.5	3.4
Employment	1.7	-0.4	0.1
Unemployment Rate (%)	10.2	11.3	11.8
Housing Starts (000's)	1.1	1.1	1.3
Existing Home Prices	1.1	3.7	1.8
Home Sales	-15.6	4.2	6.7

Source: Statistics Canada, CMHC, CREAA, Forecast by TD Economics.

Provincial Economic Forecasts

Provincial Economic Forecasts																		
Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (Average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
National	1.2	0.7	1.5	2.1	3.3	3.5	2.3	0.1	0.9	5.4	6.5	6.6	235.5	214.6	222.6	-3.0	0.5	5.4
Newfoundland & Labrador	1.0	1.3	1.5	-1.9	3.5	3.4	1.7	-0.4	0.1	10.2	11.3	11.8	1.1	1.1	1.3	1.1	3.7	1.8
Prince Edward Island	2.0	1.3	1.9	4.4	4.0	3.9	4.6	1.6	0.6	7.6	8.4	8.5	0.9	1.1	1.2	0.1	1.5	1.9
Nova Scotia	1.7	1.0	1.4	4.0	3.7	3.4	2.1	0.3	0.6	6.5	7.1	6.9	6.0	5.5	5.7	3.2	2.7	2.5
New Brunswick	1.1	0.7	1.0	2.1	2.9	3.0	3.1	0.7	0.3	6.7	7.4	7.6	3.6	2.2	2.6	3.6	3.9	3.0
Québec	0.6	0.6	1.0	2.9	3.4	3.0	2.1	-0.5	0.5	4.4	5.8	6.1	40.2	41.7	45.6	0.6	2.5	3.0
Ontario	1.1	0.4	1.5	3.6	3.1	3.5	2.4	0.2	1.1	5.6	6.8	6.8	93.1	84.7	86.8	-5.3	-0.5	2.7
Manitoba	1.5	1.0	1.3	2.6	3.6	3.1	2.2	0.8	1.0	4.9	5.4	5.2	7.4	5.5	6.0	-2.3	4.5	3.4
Saskatchewan	1.3	1.5	1.2	-1.6	3.8	2.9	1.0	0.1	0.8	4.9	5.5	5.4	4.1	3.8	4.5	0.2	3.0	4.2
Alberta	2.3	1.2	1.9	-1.1	3.9	3.8	3.5	1.0	1.0	5.9	6.5	6.6	31.3	29.8	30.3	0.8	4.4	3.9
British Columbia	1.2	0.5	1.7	1.4	3.2	3.9	1.1	0.1	1.3	5.2	6.2	5.9	47.9	39.2	38.5	-1.4	1.2	2.5
F: Forecast by TD Economics, September 2023. Source: Canadian Real Estate Association, Canada Mortgage and Housing Corporation, Statistics Canada, TD Economics.																		

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