Provincial Economic Forecast

Rate Cuts Heal With Time

September 19, 2024

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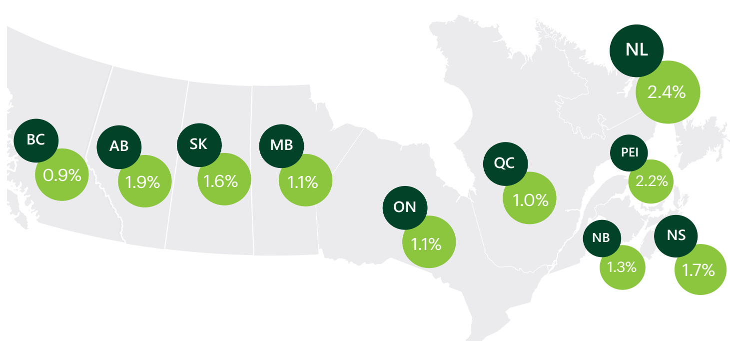
- We're most of the way through 2024, and the data seems to be adhering to our long-held view that the Atlantic Region and Prairies would outperform, in terms of GDP growth, this year. We continue to expect Ontario, Quebec, and B.C. to trail the pack. However, the former two provinces have benefitted from growth upgrades for 2024, leaving B.C. as the laggard.
- Consumption has held up well across Canada so far this year, supported by resilience in Ontario and Quebec and relative strength in the Atlantic. Going forward, a downgraded profile for borrowing costs will offer more of a boost to household spending across Canada than we'd previously thought. However, a chunk of highly indebted households in regions like Ontario and B.C. will have to contend with mortgage renewals at (likely much) higher rates.
- Housing markets are also poised to receive a lift from lower-than-expected interest rates. Indeed, we've notably upgraded our 2024 and 2025 home price forecasts across nearly all provinces except Ontario, where strained affordability and problems in the condo sector will likely weigh. Lower rates are a benefit to homebuilding as well, although we still see Canadian housing starts cooling through 2025 given low home sales levels in the past few years.
- At last count (Q2-2024), Canadian population growth continued to surge. Specifically, Canada's Big 4 provinces have yet to see any meaningful impact from recently announced federal policies to reduce the pool of non-permanent residents. We expect the effect of these policies to be significant and become evident beginning in Q4-2024, providing an impetus for a meaningful slowdown in population growth across the nation.
- Population-fueled labour force gains have outpaced employment for most of this year, driving the national unemployment rate to its highest point since mid-2021. Notably, Ontario, Alberta and Quebec have seen the most material increases in their unemployment rates. With population gains expected to cool, the jobless rate is projected to peak at the turn of the year before gently pulling back in 2025.
- Soft Chinese macro data has weakened the demand outlook for crude oil, leading to a downgrade to our near-term oil price forecast. Still, the adjustment is modest and not enough to significantly alter the anticipated growth trajectory of oil-driven provinces. Meanwhile, Prairie provinces face a heightened risk to canola exports after China initiated a one-year anti-dumping probe on the Canadian product.

Provincial Real GDP Growth Forecast (2024)



Source: TD Economics. Forecast as of September 2024.

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

British Columbia

B.C.'s economy is set to underperform the nation this year, largely reflecting the ongoing squeeze on consumer spending from interest rate increases in 2022-23. In fact, B.C. is one of the only provinces to record a contraction in retail sales over the first half of the year, while our internal TD spend data points to continued caution in the third quarter. What sets B.C. apart is its lofty average household debt burden, which is the highest among the provinces. High mortgage debt, in particular, exacerbates the headwinds on spending from the further large tranche of mortgages renewing this year at higher rates.

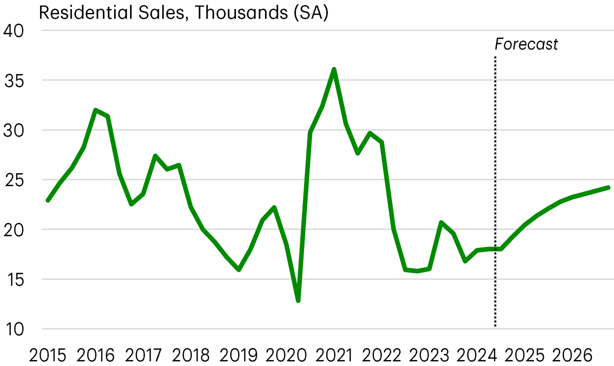
We see some bluer skies overhead over the next 12-18 months as the BoC steadily lowers interest rates. Rate cuts will benefit growth with a lag. However, by H1-25, the spending tide should start to turn, helping the province regain its status as an above-average performer. On housing, the recent 75 bps in combined short-term rate relief has spurred a modest pickup in homebuying activity, with more pronounced home sales growth expected in the coming quarters (Chart 1).

On the external side, prospects are mixed. A recently implemented doubling of duties on Canadian softwood lumber exports by the U.S. Department of Commerce further casts a pall on the province's forestry industry. Lumber exports account for an outsized 12% of B.C.'s outbound shipments. On the flip side, natural gas production volumes are grinding higher, helped by a moderately positive outlook for natural gas prices and the anticipated startup of LNG Canada next year.

For its part, B.C.'s labour market has held up comparatively well this year. Employment growth as of August has advanced at a healthy 2.6% y/y, nearly keeping pace with elevated labour force growth. This has allowed the province to maintain the third lowest unemployment rate across jurisdictions. The dispersion between public and private sector hiring, however, is starkly apparent in B.C. where public sector hiring has done most of the heavy lifting (Chart 1).

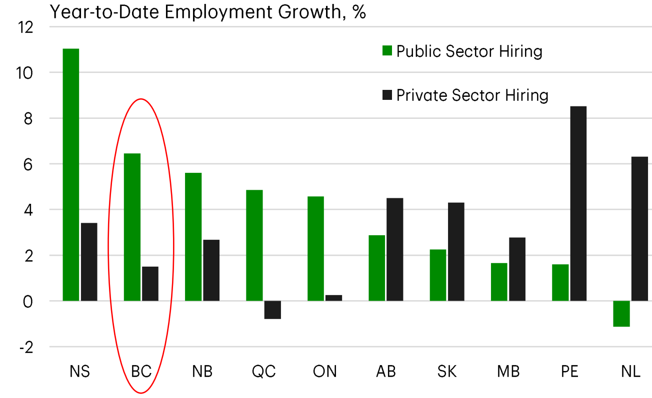
In its first quarter report, the B.C. government revealed a wider expected deficit for the current fiscal year of around $9 billion (over 2% of GDP), with no path to balance in sight. With a bigger deficit and a debt burden projected to sharply rise, the runway for continued spending is shortening. For now, the government has pushed ahead with an ambitious spending program which has aided near-term economic activity. Of note, the next provincial election is scheduled for October 14th.

Chart 1: Interest Rate Cuts Expected to Spur B.C. Home Sales



Source: CREA, TD Economics.

Chart 2: B.C. Public Sector Hiring Keeping Labour Market Afloat



Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	0.9	2.1	1.9
Nominal GDP	4.0	4.6	4.6
Employment	2.0	0.3	1.1
Unemployment Rate (%)	5.7	6.2	5.6
Housing Starts (000's)	44.3	42.2	45.4
Existing Home Prices	1.4	3.7	2.8
Home Sales	-0.1	23.2	6.4

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

Alberta

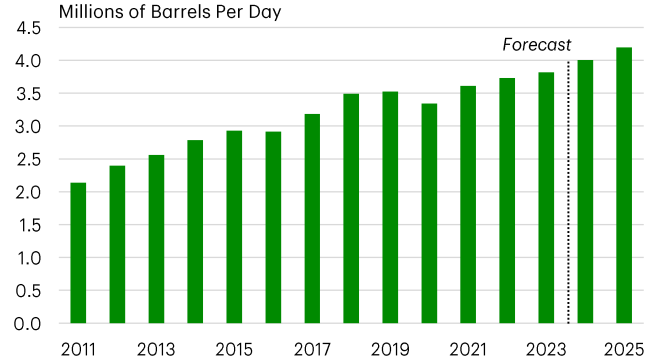
We still expect Alberta's economy to sit near the top of provincial growth rankings this year and next. However, a dichotomy has emerged among the drivers of growth. Robust activity in the oil patch – both in terms of production and exports – has reinforced its role as the number one driver of Alberta's expansion. This has compensated for other areas of the economy that have performed sluggishly so for this year. On the consumer spending front, household inflation-adjusted spending and per-capita spending have trailed that of all other provinces.

Oil production in Alberta has recently eclipsed the 4-million barrel per day (m/bpd) mark, moving close to the record-high output seen at the end of 2023. Our estimate of a ~200k/bpd increase in Alberta's oil supply growth this year is a major contributor to Canada's success as a global swing producer (Chart 1). Further, the excess capacity afforded by the Trans Mountain Pipeline Expansion (TMX) has supported WCS prices amid a broader oil price rout, keeping the differential to WTI narrower and stable at around -$14.50/bbl. This provides some upside to the provincial government's cautious resource revenue projections contained in its 2024 budget.

Population growth in Wild Rose Country is still outstripping that of all other provincial jurisdictions. Even with Alberta's job market churning out impressive 3%+ job gains so far this year, it has not been sufficient to fully absorb new entrants into the labour market. That said, population growth in the province should begin to pull back by early next year, taking the heat out of labour force growth and tempering the recent sharp rise in the unemployment rate. For one, the federal government's newly proposed policy to stem the flow of temporary foreign workers (TFWs) may hit Alberta disproportionately harder, as the province's largest jurisdictions carry unemployment rates above the 6% (Chart 2). CMAs with unemployment rates above this threshold will need to refuse applications for low-wage TFWs.

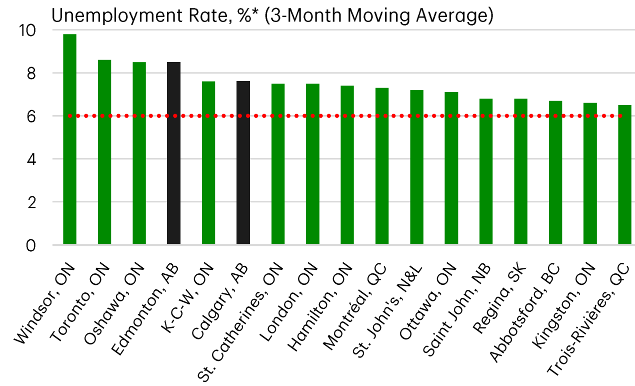
The pinch from rising unemployment coupled with high levels household indebtedness has trickled into housing markets. Resale volumes have shown little growth this year, albeit holding at historically elevated levels. Looking forward, we expect both sales and average prices to gain some moderate traction, supported by lower borrowing costs and ongoing affordability advantages. Recent momentum within the homebuilding sector–where starts hit their highest level since early-2015–bodes well for continued growth over the forecast period.

Chart 1: Alberta Oil Production Is Meeting Robust Growth Expectations



Source: Alberta Energy Regulator, TD Economics.

Chart 2: Alberta Will Feel the Effects of Federal Temporary Foreign Worker (TFW) Policy



*Other CMAs with unemployment rates above 6% not shown in chart.
Source: National Statistical Agencies, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024F	2025F	2026F
Real GDP	1.9	2.0	2.4
Nominal GDP	5.2	4.4	5.2
Employment	2.8	1.5	1.3
Unemployment Rate (%)	6.9	6.6	6.0
Housing Starts (000's)	45.3	43.9	38.5
Existing Home Prices	9.8	7.0	3.6
Home Sales	9.9	8.5	2.5

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

Saskatchewan

We've left Saskatchewan's GDP outlook roughly unchanged and continue to believe that prospects are fairly positive. The forecast derives strength from an upgrade to our view on agricultural output while strength in construction investment continues to meet expectations. The average 1.7% growth rate over the next two years would leave Saskatchewan's performance modestly below its 2011–2019 average (2.0%), but above that of the nation.

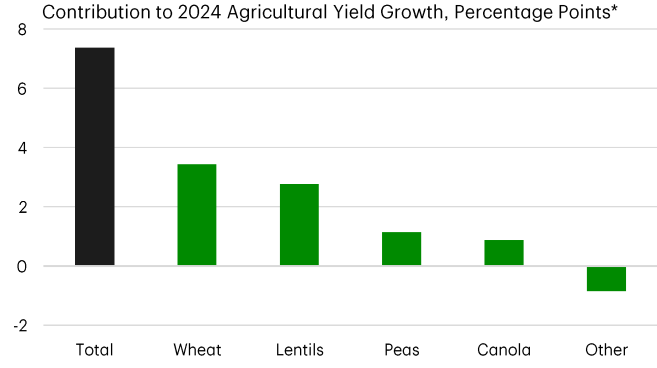
Recently-released estimates for Saskatchewan's agricultural sector point to an increase in yields for key crops wheat, canola, peas and lentils (Chart 1). The agricultural sector is facing a new risk, however, as China–its largest market for canola exports–announced the start of a one-year anti-dumping probe on Canadian canola. This will not immediately impact exports, but a move toward shipment restrictions similar to 2019 would have consequential effects. At that time, Canada's canola exports to China dropped by 70% and only recovered to 2018 levels last year. Elsewhere within the goods sector, continued expansion is expected in both crude oil and uranium, with the latter industry recording double digit growth so far this year.

The construction sector is on pace to turn in another impressive performance in 2024. Phase 1 of the Jansen potash mine mega-project is over halfway complete, ahead of schedule and slated for a 2026 start-up. Meanwhile, residential construction investment is advancing at a healthy clip largely on the back of work on single-detached units. Resale activity is also holding above historical levels, supported by still-favourable housing affordability. We expect further interest rate cuts to continue igniting demand, driving up sales and price growth at a faster pace than most other provinces.

Saskatchewan, despite having relatively less indebted households, has not been immune to the challenging retail spending conditions seen nationally in recent quarters. Still, a combination of falling interest rates and a healthy near-term labour market outlook is expected to support a pickup in consumer demand over the next year. Saskatchewan's unemployment rate is expected to remain second lowest among the provinces (Chart 2). Recently-announced federal policies around stemming the flow of temporary foreign workers (TFWs) are not expected to have a significant impact on population inflows into the province given that over a quarter of the labour force works in industries that are exempt from the changes: agriculture, construction and health care.

Chart 1: Saskatchewan Agriculture Output To Bounce Back This Year

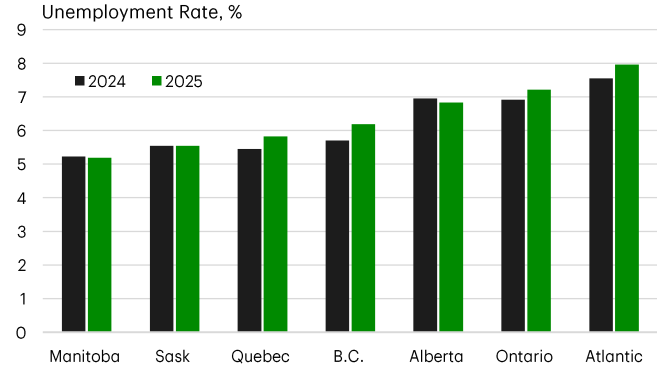
Contribution to 2024 Agricultural Yield Growth, Percentage Points*



*Based on survey estimates, 2024 actual output may differ.
Source: Statistics Canada, TD Economics.

Chart 2: Saskatchewan's Stable and Low Unemployment Rate

Unemployment Rate, %



Source: Statistics Canada, TD Economics.

Saskatchewan Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	1.6	1.8	2.1
Nominal GDP	4.4	3.8	4.4
Employment	2.0	1.5	1.1
Unemployment Rate (%)	5.5	5.5	5.2
Housing Starts (000's)	4.1	4.6	5.0
Existing Home Prices	5.1	6.2	4.3
Home Sales	6.7	11.0	4.5

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

Manitoba

We're projecting a soft showing for Manitoba's economy in 2024, with it's meagre gain supported by growth in finance/insurance/real estate, the public sector, and the transportation industry. This is consistent with solid hiring in these sectors.

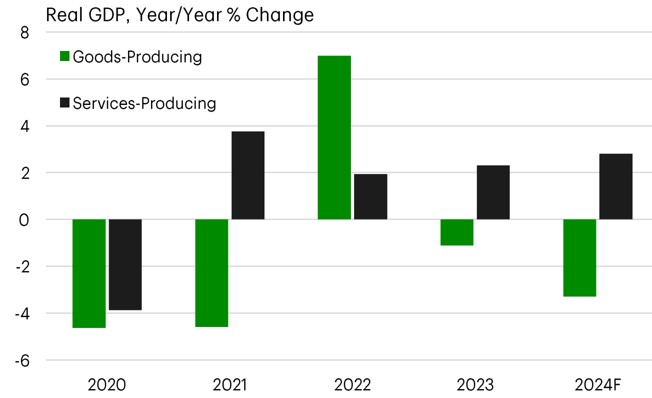
It's been a tough year for the goods sector (Chart 1). Indeed, goods production is slated to contract for a 2nd straight year, weighed down by plunging hydroelectric output. Early-year drought conditions have forced a 30% collapse in year-to-date output. However, there has been a more recent improvement and we're assuming a partial reversal of this steep decline moving forward, supporting our upgraded forecast for 2025 real GDP growth. The outlook for the agricultural sector will suffer from the likelihood that China will impose anti-dumping duties on canola imports from Canada. This is in response to Canada's recently imposed tariffs on several Chinese products. In 2019, China hit Canada with a ban on canola imports and shipments of this key crop for Manitoba to the Middle Kingdom plunged 70%.

Manufacturing activity slumped in the first half, and the short-lived CN/CPKC work stoppage will impart some temporary damage. However, we anticipate better times ahead for manufacturing, as U.S. economic growth will likely remain decent, and growth prospects have modestly improved for major internal trading partners like Ontario.

Construction is one sector that's bucked the overall trend for goods industries, driven by healthy residential investment and the new Portage Regional Health Centre project. Over the medium-term, the goods-producing sector will benefit from the revitalization of the Port of Churchill and the Churchill railway that's underway.

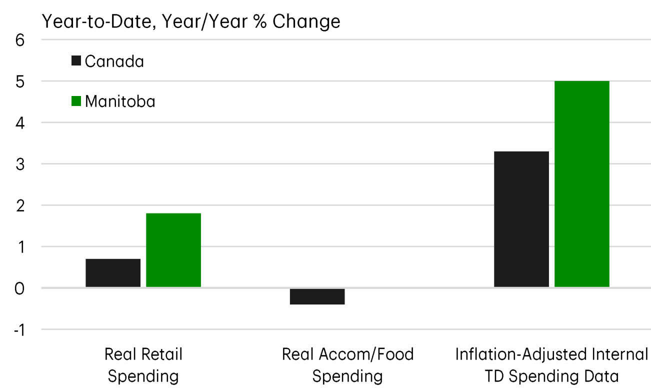
Also on the plus side, consumer spending is performing relatively well in Manitoba (Chart 2), despite it being one of the more highly indebted provinces. Households have received a notable assist from comparatively strong job growth. And, while wage growth has been on the softer-side, Manitoba's inflation has consistently been below the rest of Canada since mid-2023 and was only 1.3% in August of this year. This is in large part due to the provincial government's fuel tax suspension. For 2025, our downgraded profile for borrowing costs should support stronger household spending than we'd envisioned in our June projection.

Chart 1: It's Been a Struggle for Manitoba's Goods Sector



Note: F indicates forecast by TD Economics. Source: Statistics Canada, TD Economics.

Chart 2: Job Gains, Low Inflation Supporting Manitoba's Households



Source: TD, Statistics Canada, TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024F	2025F	2026F
Real GDP	1.1	1.7	2.0
Nominal GDP	4.0	3.6	4.2
Employment	2.2	1.2	1.0
Unemployment Rate (%)	5.2	5.2	5.0
Housing Starts (000's)	6.9	6.2	6.5
Existing Home Prices	5.9	6.0	3.3
Home Sales	9.4	7.6	2.9

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

Ontario

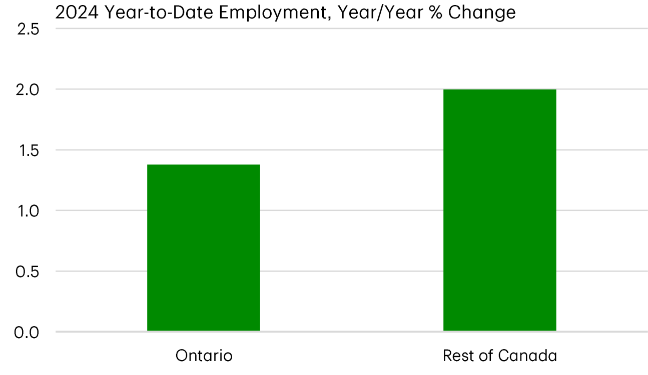
Relative to other parts of the country, Ontario has displayed an impressive degree of economic resilience. And this has come about despite it having the weakest housing market and among the most highly indebted households in the country. In the first quarter, real GDP was up 1.1% year-on-year, versus a 0.6% gain for Canada overall. This wedge was driven by firmer population growth, government expenditures and non-residential investment in Ontario. Of course, Ontario's economy is by no means rip-roaring, as it still contracted 2.3% year-on-year in per capita terms in Q1 and probably recorded a similar performance in Q2. In the near-term, Ontario's growth will be distorted by temporary events such as the LCBO workers strike last month and massive floods in July, while Umicore's decision to suspend construction of its $2.8 billion battery plant in Loyalist will also weigh.

In 2025, we're expecting growth to pick up to a pace that's slightly below its long-term average, as falling borrowing costs stimulate the economy and U.S. economic growth remains decent. On the latter point, manufacturing should enjoy a turnaround after a weak first-half performance, which partly reflected the temporary impact of auto sector retooling in the U.S. and Ontario.

There are factors working against even stronger GDP growth in 2025. For one, population growth is expected to slow markedly, with guidance from the federal government suggesting that the number of study permits approved for foreign students could drop by 40% from 2023 levels. What's more, a portion of Ontario's highly indebted households will have to contend with renewing their mortgages at rates considerably higher than when the debt was initiated. Ontario's jobs market has also cooled (unemployment rate is up 2 ppts in August from its 2023 low), and wage growth should ease in response (Chart 1).

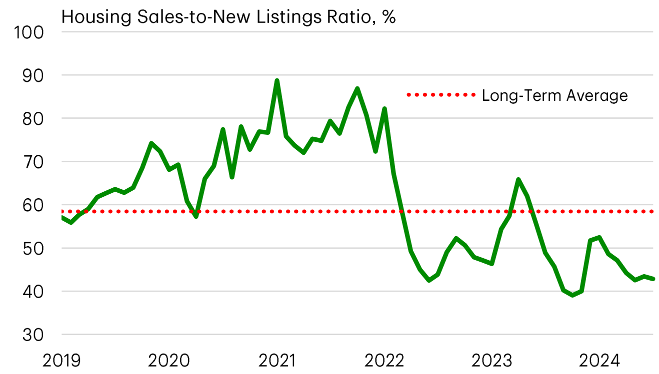
Falling borrowing costs will likely help unlock significant pent-up demand in Ontario's resale housing market, supporting a recovery in coming quarters. That said, supply/demand balances are heavily titled in the favour of buyers (Chart 2). There's also a glut of condos available for purchase in the GTA, which could require price concessions to clear these inventories. And affordability remains historically stretched. Given these factors, we expect a below-trend growth pace for prices through next year.

Chart 1: Subpar Economic Growth Has Cooled Hiring in Ontario



Source: Statistics Canada, TD Economics.

Chart 2: Loose Conditions To Restrain Home Price Growth in Ontario



Source: CREA, TD Economics.

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024F	2025F	2026F
Real GDP	1.1	1.6	2.0
Nominal GDP	4.0	3.6	4.2
Employment	1.6	1.4	0.5
Unemployment Rate (%)	6.9	7.2	6.8
Housing Starts (000's)	80.5	82.9	94.7
Existing Home Prices	-0.4	4.6	3.1
Home Sales	1.5	23.9	5.9

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

Québec

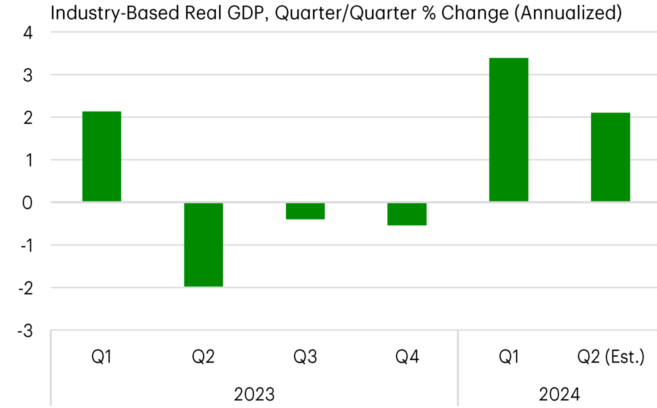
We've slightly upgraded our forecast for Quebec's 2024 GDP growth in the wake of an unexpectedly firm first-half performance (Chart 1). However, it would be stretch to characterize Quebec's economy as strong, especially as GDP was likely only up about 1% year-on-year in the second quarter, even with a decent quarterly showing. What's more, much of this year's growth has been driven by the public sector, reflecting a bounce-back from strikes that took place late last year. In fact, while GDP is up 2.5% from December, the gain shrinks to a mere 1% excluding the public sector. And, the recent Q2 National Accounts showed a huge gain in aircraft investments – a chunk of which took place in Quebec - which should unwind in the near term.

Quebec's soft economic backdrop has been reflected in a weak hiring trend, with net job gains up just 0.5% so far this year. This slower pace has rapidly rebalanced the jobs market after a multi-year bout of tightness (Chart 2). Wage growth is still robust but will likely cool given these developments. At the same time, the Quebec government has introduced a six-month moratorium on temporary foreign workers who earn below the median wage, which will likely weigh on population growth (although the impact will be blunted by exemptions to industries like healthcare). Slower wage gains and weaker population growth should weigh on consumption and overall economic growth in 2025. That said, the average household has considerable savings to draw upon, if required. Keeping our lens on next year, the public sector is probably not going to offer the same sizeable growth lift as it did in 2024, consistent with slower program spending growth plans.

In annual average terms, Quebec's large manufacturing sector is likely to add nothing to overall economic growth this year. However, this reflects weak momentum heading into 2024 and a modest early-year outturn. Activity improved in the second quarter, and we think that the combination of still-decent U.S. economic growth and a pickup in activity in other provinces will keep this momentum on track through 2025.

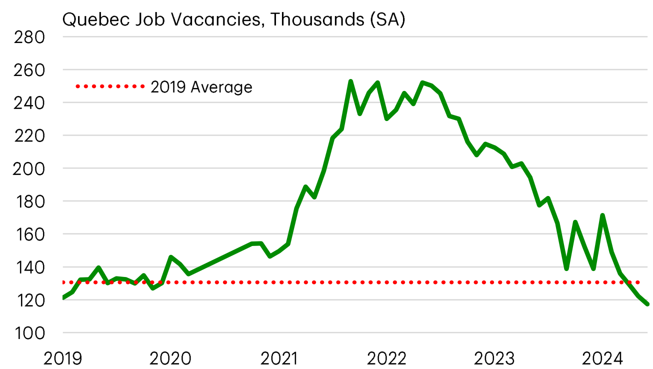
Quebec's housing markets have remained tight, despite an elevated backdrop for borrowing costs, as weak sales activity has been paired by similarly soft levels for listings. As a result, average home price growth has been solid. We've upgraded our price growth forecasts in 2024 and 2025, reflecting a downgraded interest rate profile.

Chart 1: Healthy First Half Showing for Quebec's Economy



Source: Quebec Government, TD Economics.

Chart 2: Quebec's Jobs Market Has Become More Balanced



Source: Statistics Canada, TD Economics.

Québec Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	1.0	1.3	1.6
Nominal GDP	4.0	3.4	4.0
Employment	0.3	0.5	0.7
Unemployment Rate (%)	5.5	6.0	5.7
Housing Starts (000's)	48.7	46.6	50.8
Existing Home Prices	6.3	5.5	3.1
Home Sales	13.9	9.5	1.7

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

New Brunswick

We've upgraded our 2024 real GDP forecast for New Brunswick (N.B.), putting the province on track to slightly outpace national-level growth. The story around N.B.'s economy has remained the same for most of the year. Export-oriented manufacturing and resource-based industries are facing a challenging environment. On the flip side, domestic spending is fairing considerably better as evidenced by nation-leading retail sales (Chart 1). Notwithstanding the recent uptrend in unemployment, sturdy hiring is managing absorb above-average levels of labour force growth, which has supported ongoing real wage gains.

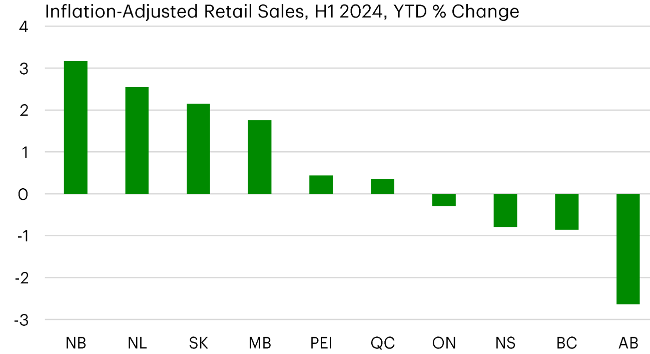
Part of this year's upgraded outlook is also coming through lofty gains in both residential and non-residential investment. Notably, construction investment in multi-unit structures has soared over 40% compared to the same period last year, thanks to still-elevated population growth. While momentum in homebuilding is likely to sustain near-term strength over the final months of 2024, we expect the non-residential side to moderate given the projected drop in government and private investment in the current year.

Unlike the rest of the Atlantic region, population growth in N.B. is still running close to peak growth rates, supported by elevated flows of both international and inter-provincial migration. We do expect the rate of in-migration to moderate as international student applications are capped at a lower level compared to 2023. Further, the province has paused their express-entry and skilled-worker immigration streams for the rest of the year. Slowing population trends will impact consumer spending and housing in 2025, though lower borrowing costs will provide some offset.

N.B.'s export engine has effectively stalled this year, underperforming the modest growth performance witnessed nationally. We do see scope for a bounce back next year as monetary conditions ease in the U.S., which is home to 90% of the province's outbound shipments. In particular, we expect that manufacturing sales, which have recorded six declines over the last seven quarters, will reach firmer ground in 2025 (Chart 2).

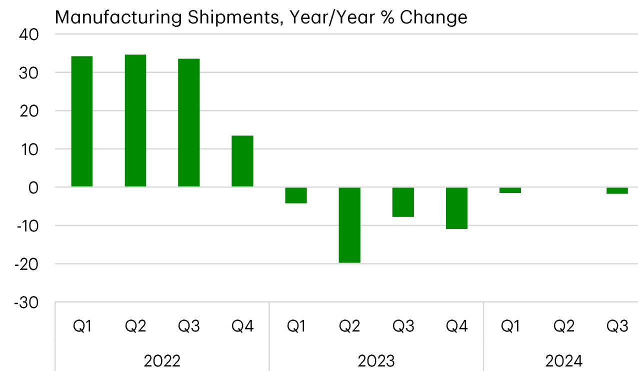
N.B.'s fiscal situation continues to remain solid compared to its peers and even its own historical track record. It is worth noting that the provincial government no longer expects to achieve a budget surplus this fiscal year as health related expenditures surged to support the rising headcount. Still, the NB government carries the fourth lowest net-debt burden among the provinces, giving the government some fiscal wiggle room to support growth if needed.

Chart 1: Population Growth, Employment Supporting N.B. Consumer Spending



Source: Statistics Canada, TD Economics.

Chart 2: New Brunswick's Manufacturing Shipments Facing Headwinds



Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024F	2025F	2026F
Real GDP	1.3	1.3	1.5
Nominal GDP	3.6	3.4	3.8
Employment	3.1	1.0	0.4
Unemployment Rate (%)	7.1	7.3	7.4
Housing Starts (000's)	5.5	3.4	3.2
Existing Home Prices	9.0	4.6	3.1
Home Sales	3.2	9.8	3.2

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

Nova Scotia

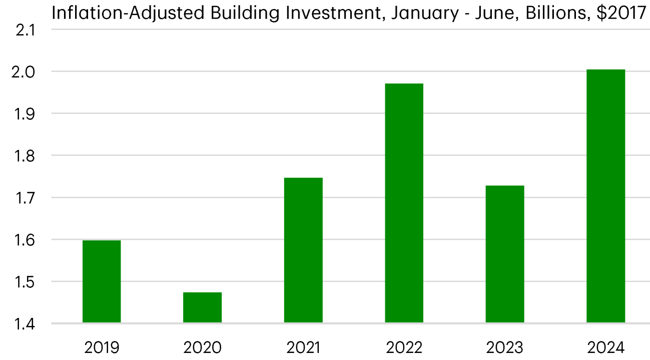
Nova Scotia's real GDP growth in 2024 is likely to be relatively firm on the strength of a few factors. The first is robust activity in the wholesale trade sector. The second is large gains in the residential and non-residential sectors (Chart 1). In the residential sector, construction of purpose-built rental units has taken off, fueled by low vacancy rates and rapid population growth until recently. Rents are growing robustly, with CPI data pointing to a 9% year-on-year gain in August. Non-residential investment, meanwhile, has been boosted by ongoing construction of the large-scale QEIII hospital project. The public sector is also shaping up to be an important growth contributor this year, evidenced by strength in hiring.

Household spending growth has been more mediocre. For instance, inflation-adjusted retail trade and accommodation and food spending has been down slightly year-to-date. This is despite solid job growth in Nova Scotia, and the fact that households in the province are carrying much lighter debt loads then nearly everywhere else in the country. In addition, measures of wage growth have been firm, with metrics like the ratio of job vacancies-to-unemployment flagging some lingering tightness in the jobs market. However, it's worth noting that inflation has generally been stickier in Nova Scotia than elsewhere in Canada.

Some part of this middling spending performance can likely be put down to significantly slower population growth (Chart 2). Indeed, Nova Scotia's population growth has trailed that of Canada since late 2023, after exceeding it for the prior 3 years. This turnaround has partly been a function of interprovincial migration, which has been on a downtrend. This population growth slowdown will likely continue into 2025 as government measures targeting non-permanent residents weigh on inflows, and this is a key factor underpinning our forecast for a cooling in Nova Scotia's economic growth next year.

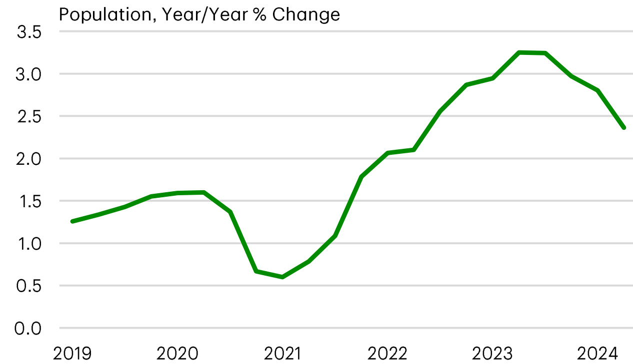
A softer pace of population growth will also weigh on housing demand in the province, both through the rental and homeownership channels. That said, we've lifted our annual average home price forecasts for this year and next amid still tight markets and a downgraded profile for borrowing costs. For its part, homebuilding will likely remain elevated next year, supported by high home prices and rents.

Chart 1: Rental and Hospital Projects Lifting Construction in Nova Scotia



Source: Statistics Canada, TD Economics.

Chart 2: Slowing Population Growth To Weigh on Domestic Demand in Nova Scotia



Source: Statistics Canada, TD Economics.

Nova Scotia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024F	2025F	2026F
Real GDP	1.7	1.4	1.6
Nominal GDP	4.5	3.4	3.9
Employment	3.1	0.0	0.4
Unemployment Rate (%)	6.6	6.9	6.9
Housing Starts (000's)	7.8	5.8	6.4
Existing Home Prices	5.1	3.7	2.4
Home Sales	5.3	13.1	3.8

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

Prince Edward Island

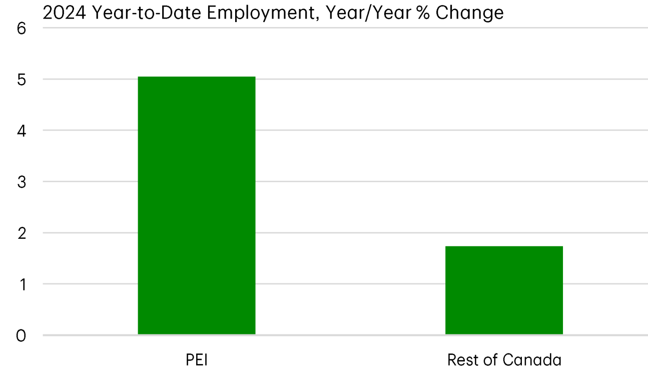
Healthy consumer spending continues to underpin a sturdy economic performance in PEI this year. Indeed, inflation-adjusted retail sales are up a decent 2% year-to-date, a picture corroborated by our internal debit and credit card spending data. The outperformance in consumption compared to other regions isn't too surprising, especially given that robust population growth and relatively firm labour demand have fueled solid job market gains (Chart 1). Wages are also roaring higher, even with the boost to labour supply from population growth. At the same time, inflation has cooled considerably, allowing households to pocket real wage gains. Finally, households in PEI sport some of the lowest debt levels in the country, insulating them to a degree from the impact of elevated borrowing costs.

Another huge growth assist to the Island is coming from the construction industry, where residential investment has nearly doubled so far this year from its modest 2023 level. Specifically, construction of purpose-built rental units has shot higher, as the industry has responded to record population inflows.

Looking ahead, we think the Island is poised for another solid year in 2025. Falling interest rates should boost the housing market and offer a tailwind for consumption and business investment. The external backdrop should also co-operate, as we're expecting another resilient turnout in the U.S. while growth picks up in the European Union (PEI's 2nd largest international trade partner).

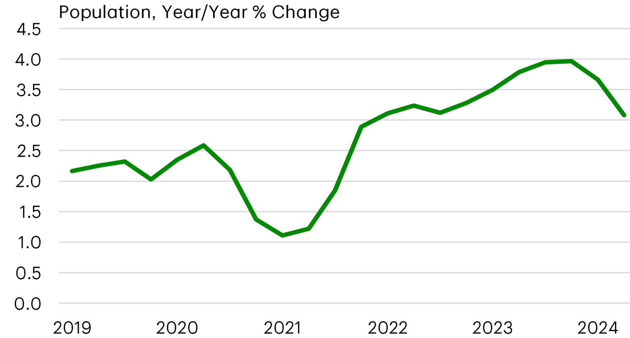
Even with these positives in place, we view PEI's current growth pace as unsustainable, and it will likely cool down a touch in 2025. Population growth, while still robust, has started to roll over (Chart 2). Immigration to the Island continues to be brisk, but there have been pullbacks in the number of non-permanent residents coming to PEI. And the federal government's plan to limit the number of study permit applications to Canada suggests that PEI's foreign student intake could fall. Interprovincial migration has also dropped for three straight quarters for the first time since 2017-18. Our view is that population growth will continue to ease, weighing on domestic demand and restricting the Island's performance next year.

Chart 1: Robust Job Growth Supporting Household Spending in PEI



Source: Statistics Canada, TD Economics.

Chart 2: PEI's Cooling Population Growth Dents 2025 Growth Prospects



Source: Statistics Canada, TD Economics.

P.E.I. Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	**2024F**	**2025F**	**2026F**
Real GDP	2.2	1.9	1.9
Nominal GDP	5.2	4.1	4.3
Employment	3.6	1.0	0.8
Unemployment Rate (%)	7.8	8.1	8.1
Housing Starts (000's)	1.2	1.2	1.3
Existing Home Prices	2.0	3.6	2.4
Home Sales	2.8	5.0	3.6

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

Newfoundland & Labrador

Newfoundland and Labrador's (N.L.) economy is likely to expand at a nation-leading pace over the next two years. The rosier outlook follows two consecutive years of negative growth, led by a sagging performance in the province's oil sector. But that tide is set to turn, thanks to contributions from the restart of the Terra Nova vessel, which was offline for maintenance from 2019 until late-2023. Even as another vessel, SeaRose, undergoes repair for the rest of this year, oil production is forecast to grow at a healthy 5% rate this year (Chart 1). The resumption of SeaRose will add production momentum into next year and set the stage for an even stronger real GDP showing in 2025.

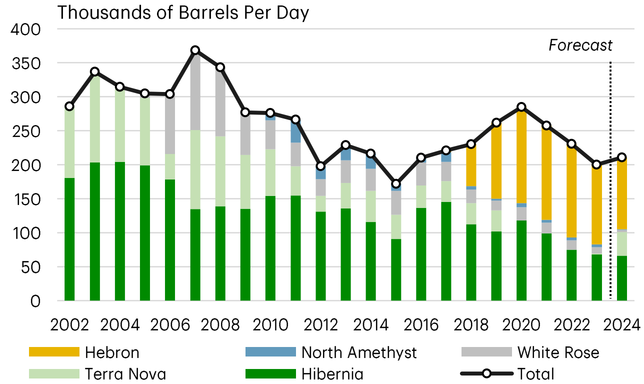
Similar to the oil sector, the agriculture, mining, and forestry industries had suffered setbacks over the past two years. Muted gains in agriculture and forestry may be a story once again this year, but a lofty rebound in mining activity should more than offset. Led by growth in nickel exports, total mineral shipments are forecast to increase by 25% this year.

Further, metals prices have found support as global central banks begin to move into less restrictive policy, delivering an expected boost to global demand. The mining sector remains a medium-term bright spot for N.L.'s economy as mineral exploration expenditures ramp up with support from the provincial Critical Minerals Plan.

The performance of domestic-oriented industries has held up well and stands to benefit further from the Bank of Canada's interest rate reductions. Unlike the rest of the nation, N.L.'s employment growth has broadly outpaced that of the labour force, which has kept the unemployment rate on a declining trend. This has supported consumer spending, as evidenced by robust retail sales over the first half of the year (Chart 2). What's more, internal TD spending data points to continued strength in the third quarter.

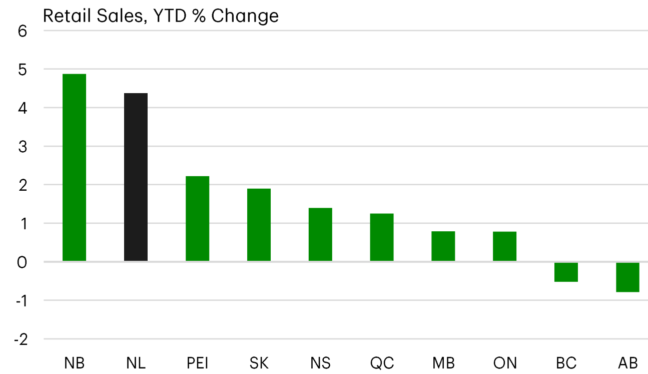
In June, the federal government lifted a 30-year fishing ban for Northern cod off the north and east coasts of the province. Since the moratorium was enacted, N.L.'s fishing industry fell from a nearly 4% share of GDP to 1.5%. Rebuilding sustainable fishing practices could take some time, but it stands to propel the fisheries sector as an important source of growth over the medium-term.

Chart 1: Terra Nova Restart Will Lift Newfoundland's Oil Production



Source: Canada-Newfoundland & Labrador Offshore Petroleum Board, TD Economics.

Chart 2: N.L.'s Declining Unemployment Supporting Consumer Spending



Source: Statistics Canada, TD Economics.

NFLD & Labrador Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	**2024F**	**2025F**	**2026F**
Real GDP	2.4	2.7	2.0
Nominal GDP	5.4	4.8	4.4
Employment	2.9	-0.3	0.2
Unemployment Rate (%)	10.0	11.1	11.3
Housing Starts (000's)	1.6	1.4	1.5
Existing Home Prices	8.1	4.9	2.1
Home Sales	2.2	7.7	4.5

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

Provincial Economic Forecasts

Provincial Economic Forecasts																		
Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (Average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
National	**1.1**	**1.7**	**2.0**	**4.3**	**3.9**	**4.4**	**1.6**	**1.0**	**0.8**	**6.4**	**6.7**	**6.3**	**245.9**	**238.1**	**253.4**	**1.3**	**6.9**	**3.6**
Newfoundland & Labrador	2.4	2.7	2.0	5.4	4.8	4.4	2.9	-0.3	0.2	10.0	11.1	11.3	1.6	1.4	1.5	8.1	4.9	2.1
Prince Edward Island	2.2	1.9	1.9	5.2	4.1	4.3	3.6	1.0	0.8	7.8	8.1	8.1	1.2	1.2	1.3	2.0	3.6	2.4
Nova Scotia	1.7	1.4	1.6	4.5	3.4	3.9	3.1	0.0	0.4	6.6	6.9	6.9	7.8	5.8	6.4	5.1	3.7	2.4
New Brunswick	1.3	1.3	1.5	3.6	3.4	3.8	3.1	1.0	0.4	7.1	7.3	7.4	5.5	3.4	3.2	9.0	4.6	3.1
Québec	1.0	1.3	1.6	4.0	3.4	4.0	0.3	0.5	0.7	5.5	6.0	5.7	48.7	46.6	50.8	6.3	5.5	3.1
Ontario	1.1	1.6	2.0	4.0	3.6	4.2	1.6	1.4	0.5	6.9	7.2	6.8	80.5	82.9	94.7	-0.4	4.6	3.1
Manitoba	1.1	1.7	2.0	4.0	3.6	4.2	2.2	1.2	1.0	5.2	5.2	5.0	6.9	6.2	6.5	5.9	6.0	3.3
Saskatchewan	1.6	1.8	2.1	4.4	3.8	4.4	2.0	1.5	1.1	5.5	5.5	5.2	4.1	4.6	5.0	5.1	6.2	4.3
Alberta	1.9	2.0	2.4	5.2	4.4	5.2	2.8	1.5	1.3	6.9	6.6	6.0	45.3	43.9	38.5	9.8	7.0	3.6
British Columbia	0.9	2.1	1.9	4.0	4.6	4.6	2.0	0.3	1.1	5.7	6.2	5.6	44.3	42.2	45.4	1.4	3.7	2.8

F: Forecast by TD Economics, September 2024. Source: Canadian Real Estate Association, Canada Mortgage and Housing Corporation, Statistics Canada, TD Economics.

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