TD Economics

Provincial Economic Forecast

It's Always Darkest Before Dawn

December 15, 2020

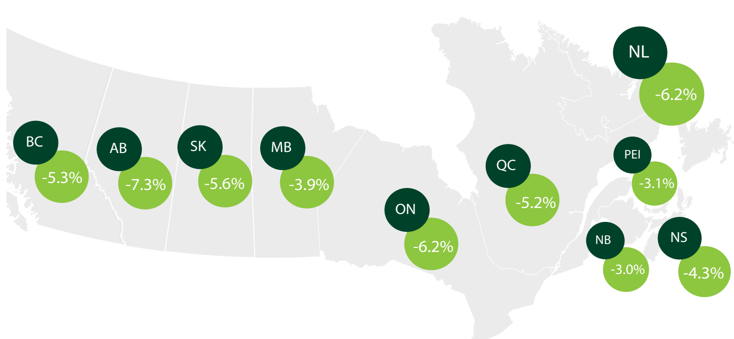
Contributing Authors

- Beata Caranci, Chief Economist | 416-982-8067
- Derek Burleton, Deputy Chief Economist | 416-982-2514
- Omar Abdelrahman, Economist | 416-734-2873
- Rishi Sondhi, Economist | 416-983-8806

Jump to: BC | AB | SK | MB | ON | QC | NB | NS | PE | NL | Forecast Table

- The near-term outlook for the provinces is dampened by elevated COVID-19 caseloads. Even in regions with lesser restrictions, momentum is slowing as consumer and business confidence retract.
- In a marked difference from earlier in the year, the Prairie region is now home to the worst outbreak in new, per capita, COVID-19 cases. B.C., Ontario and Quebec have seen surges of their own, while cases have remained low in the Atlantic. These developments have forced a new round of restrictions, with the strictest measures (and therefore largest near-term growth impact) coming in Manitoba, Ontario, Quebec, and Alberta.
- Some solace can be taken from the fact that outside of 'high-touch' industries, provincial labour markets have been displaying good resilience this autumn, with unemployment rates in the majority of regions set to end the year below our previous expectations. Nova Scotia is now home to the lowest jobless rate, followed by Saskatchewan. In contrast, unemployment rates remain elevated in Newfoundland & Labrador and Alberta.
- An earlier-than-expected vaccine rollout has prompted us to upwardly revise the real GDP outlook for all provinces in 2021, with gains now ranging between 3.1% in PEI and 5.6% in Ontario. On the margin, provinces with a greater exposure to hard-hit services and tourism industries should benefit more. A swifter rebound in commodity prices should also provide support to the Prairie provinces.
- On top of pandemic-related initiatives, the federal government has pledged some $70-$100 billion in fiscal stimulus over the next three years to support recoveries. Although details are scant, we assume this windfall will benefit provinces coast-to-coast. Indeed, this additional funding could supply a near 1 ppt boost to growth over the next two years.
- Even after a record third quarter, housing markets across the country continue to show impressive strength, as sales and prices held firm in the final months of the year, the latter bolstered by tight supply/demand balances across much of the country. However, affordability pressures and the exhaustion of pent-up demand should lower activity to more "normal" levels next year.

Provincial Real GDP Growth Forecast (2020)



Source: TD Economics. Forecast as of December 2020.

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

British Columbia

This year, the B.C. economy appears set to suffer a slightly smaller hit to real GDP relative to the nation. The province's job market has managed to recover 91% of its losses, tops among the four most populous provinces (Chart 1). This outperformance has been broad-based, but a key driver has been a swifter recovery in the close-contact accommodation, food services, and recreation industries. Hiring in B.C.'s professional, scientific, and technical services industry has also been notably resilient.

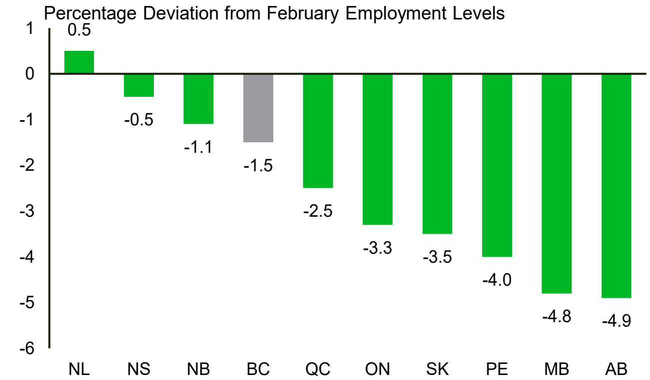
The adverse economic impacts of the second wave of infections – while still meaningful – are anticipated to be relatively less pronounced in B.C. compared to some other provinces. Retail stores, restaurants, and most personal services businesses were permitted to remain open. Instead, the government has taken steps to impose capacity limits and prohibit social gatherings. A less negative hand-off into 2021 would position B.C. well to outperform in 2021. An effective vaccine should spell good news for the province's beleaguered tourism sector.

Manufacturing sales and exports have been a bright spot in recent months, bolstered in part by improved lumber markets. While the industry continues to face challenges, a recent decision by the U.S. to reduce softwood lumber duties for most companies from 20.23% to 9% has been a positive development. Appeals against the remaining duties remain.

Recent conditions in B.C.'s housing markets have been mixed. Growth in existing home sales is on track to outpace most provinces this year. Homebuilding, however, has taken a steep leg down from 2019's torrid pace (Chart 2). Partly reflecting a pandemic-induced drop in population growth, a flattening in resale activity and price gains is expected in 2021. The non-residential construction sector is expected to take up some of the slack as work proceeds on LNG Canada and the Trans Mountain pipeline expansion.

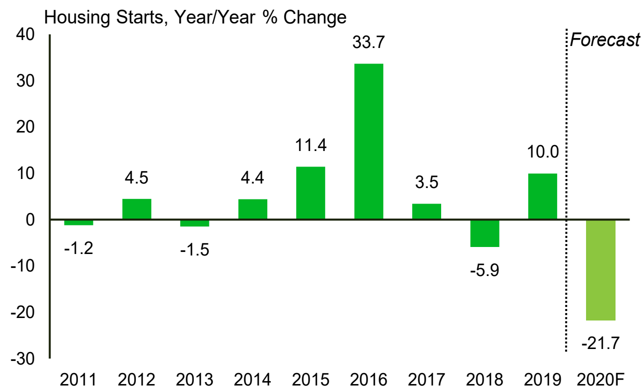
In addition to federal spending, the provincial election platform included planned additional infrastructure investment alongside growth in operating spending over the next few years. Recent supplementary estimates point to $2 billion of potential new spending and contingencies this fiscal year, the bulk of which is for a planned new COVID-19 B.C. Recovery Benefit. This may potentially add to the $12.8 billion deficit for FY 2020-21. That said, the Province's net debt to GDP ratio will remain among the lowest in the country.

Chart 1: B.C.'s Labour Market Recovery Has Been Gaining Traction



Source: Statistics Canada, TD Economics. Last observation: November 2020.

Chart 2: B.C.'s Home-building Taking a Sharp Leg Down This Year



Source: CMHC, TD Economics, Forecast by TD Economics as of December 2020.

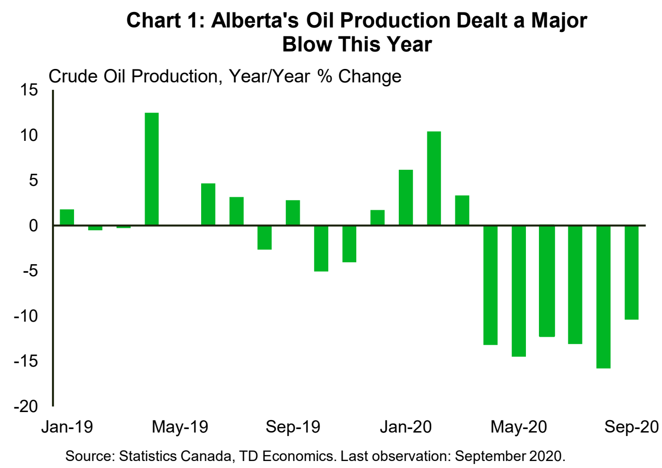
British Columbia Economic Forecasts
[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-5.3	5.1	4.0
Nominal GDP	-3.6	7.1	6.1
Employment	-6.1	6.2	2.1
Unemployment Rate (%)	8.9	6.3	5.5
Housing Starts (000's)	35.3	36.3	34.0
Existing Home Prices	10.5	0.2	0.7
Home Sales	18.6	13.4	-2.3

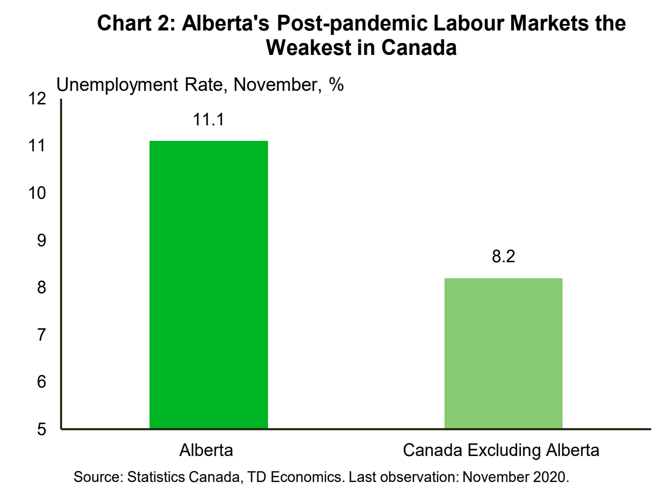
Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

Alberta

The second wave of virus infections this autumn has left Alberta with the highest per capita daily case count in Canada. As a result, restrictions on the accommodation, food, and personal services industries were reinstated. This will inevitably deliver a near-term growth setback to an economy that is poised to record the steepest contraction among the provinces this year. An "L-shape" recovery so far in the energy sector is at the core of Alberta's lagging performance. National data show that capital spending in the oil and gas extraction industry rebounded only slightly in the third quarter, to $4.5 billion (from $4.1 billion in the second quarter), well below its first quarter level of $8.5 billion. Oil production is gradually recovering, but remained 10.4% below year-ago levels in September (Chart 1).



Recent announcements of upcoming layoffs in the energy sector will dampen overall improvements in the labour market. As at November, the province's employment remained 4.9% below its pre-pandemic levels, compared to 3% nationally. Its unemployment rate is the second highest outside of Newfoundland & Labrador (Chart 2).



Oil and gas activity is expected to pick up next year. Indeed, prospects for an earlier-than-anticipated vaccine have helped to spark a rally in WTI oil prices towards US$45. Prices received further support from OPEC+'s recent decision to delay the tapering of production cuts. Elsewhere, a Joe Biden Administration implies more downside risks to the completion of the Keystone XL pipeline. However, this project was already facing several regulatory hurdles. The two other major pipelines continue to make headway. Indeed, Enbridge's Line 3 replacement has cleared its final permits this fall. Longer term, there is an increasing emphasis in the region on diversification within the energy sector.

A notable bright spot in the economy has been agriculture. Crop production and exports are up in 2020. Likewise, Q1-Q3 farm cash receipts are up 4.3% relative to last year. A recent decision to invest $815 million in Alberta's irrigation system bodes well for the sector.

Alberta's Q2 fiscal update revised the deficit downward to a still-sizeable $21.3 billion (6.9% of GDP). Previous plans to balance the budget by FY2022-23 were cancelled. Instead, the government has offered per capita spending guidelines and a fiscal anchor to guide its post-pandemic budgets. Namely, Alberta plans to keep its net debt to GDP ratio below 30%.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-7.3	4.8	4.1
Nominal GDP	-10.9	9.4	7.2
Employment	-7.2	5.0	3.7
Unemployment Rate (%)	11.4	9.5	7.5
Housing Starts (000's)	24.2	26.1	29.9
Existing Home Prices	3.0	2.1	1.7
Home Sales	1.7	7.4	-0.4

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

Saskatchewan

The double whammy of COVID-19 and the commodity price shock will leave Saskatchewan with a sizeable economic contraction in 2020. As of September, oil production was still 8.6% below year-ago levels. Dampened rig counts and lower energy-related investment intentions have also put a severe damper on overall non-residential investment, which is set to drop at a double digit pace this year.

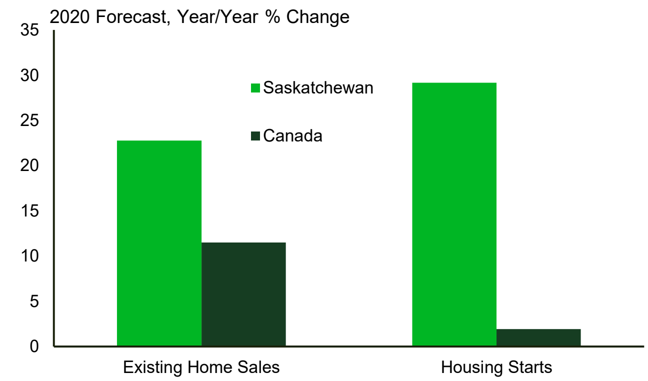
Saskatchewan's relatively low unemployment rate (6.9%) masks weakness under the surface. The recovery in labour markets has taken a turn for the worse. Despite the lack of business restrictions seen elsewhere during the second wave, the province recorded a pullback in jobs in the past two months. Worryingly, Saskatchewan's labour force remains the most depressed relative to its pre-pandemic levels.

Across the province's economic landscape, some areas have stepped up as notable winners this year. For instance, Saskatchewan is on track to record the sharpest increase in home sales and starts this year among the provinces (Chart 1). Agriculture is another industry that stands out, buoyed by solid international demand. Overall exports are up for the year as a whole, lifted by surging agricultural and food exports (Chart 2). This is a notable feat given that seven provinces are tracking at least a 10% drop in exports so far this year. Overall crop production growth was dampened by lower canola harvests. However, farm cash receipts are up more than 20% through the first three quarters – the most of any province. Elsewhere, potash production has also increased, although subdued prices have weighed on revenues.

Saskatchewan's bent towards commodities should represent a moderate tailwind for the provincial economy in 2021, as both prices and demand continue to recover gradually. The province's uranium sector is still in the doldrums. Operations were temporarily paused at the Cigar Lake mine due to COVID-19 concerns. Likewise, the province's oil & gas industry is also not out of the woods yet. That said, recent vaccine breakthroughs and a gradual uptrend in oil prices should benefit the beleaguered industry next year.

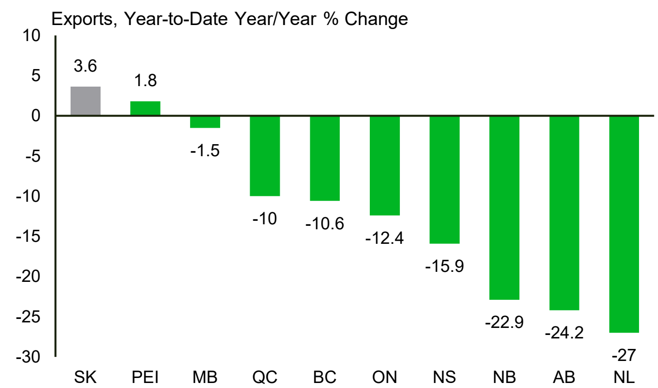
In contrast to other oil-producing provinces, Saskatchewan's budget was less battered by the pandemic. Its second quarter fiscal update revealed a smaller than expected deficit of $2 billion. At 19.6%, its expected net debt to GDP ratio is the lowest of any province.

Chart 1: Saskatchewan's Housing Activity Surged This Year



Source: CMHC, CREA, TD Economics, Forecast by TD Economics as of December 2020.

Chart 2: Buoyed by Solid Agricultural Demand, Exports Have Been a Notable Bright Spot



Source: Statistics Canada, TD Economics. Last observation: October 2020.

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

	2020	2021	2022
Real GDP	-5.6	4.7	3.8
Nominal GDP	-8.5	8.5	6.7
Employment	-4.8	3.9	2.5
Unemployment Rate (%)	8.2	6.2	5.9
Housing Starts (000's)	3.1	3.6	4.2
Existing Home Prices	2.8	3.6	1.7
Home Sales	22.8	4.5	0.1

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

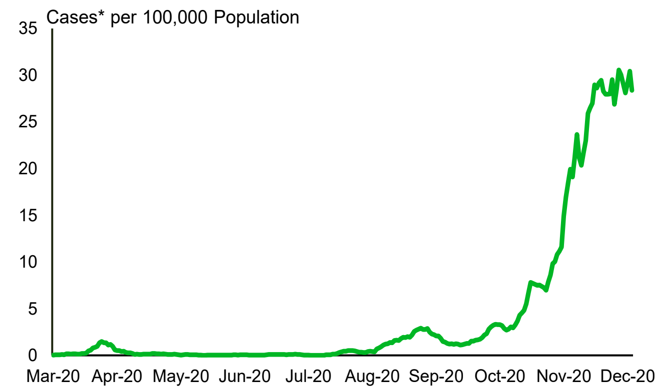
Manitoba

Manitoba is now suffering through one of the worst outbreaks of new COVID-19 cases, on a per capita basis, in the country (Chart 1). This marks a bitter turn of events for the province, which had managed to control the virus for much of its duration. As a result, the entire province moved into the "red zone" in November. Manitoba's "red zone" differs from the vast majority of other Canadian jurisdictions in that the retail and personal services industries are included in the scope of restrictions, which, alongside their province-wide application, makes them the most severe in the country.

These restrictions, in tandem with the negative impacts from the rising cases themselves, will not be lost on the provincial economy and have caused us to sharply downgrade our near-term forecast. As a case in point, employment in Manitoba plunged by 2.8% m/m in November, with losses concentrated in higher-touch industries. Despite this late-year setback, we still expect Manitoba's economy to contract by less than the national average in 2020 as a whole. This is because the economy had outperformed in the months leading into this new round of restrictions as COVID-19 case counts were low (Chart 2).

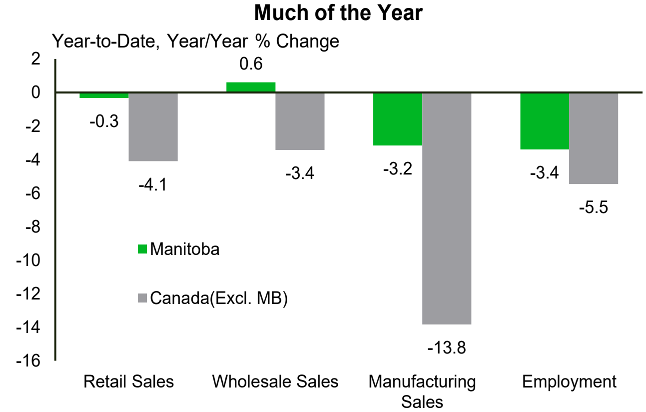
Looking ahead to next year, we anticipate a solid rebound in Manitoba's economy. Aside from the assumed availability of a vaccine, there are other reasons to be optimistic. Firstly, output in industries impacted by the restrictions implemented in November should rebound forcefully as these measures are relaxed. In addition, Manitoba's diversified economy provides some cover from the lingering impacts of the pandemic, in that industries that are more likely to experience prolonged recoveries (i.e. tourism) comprise a smaller share of jobs and activity compared to other provinces. What's more, Manitoba is overweight in some outperforming industries, like food manufacturing. Indeed, this staple industry has enjoyed a strong performance during the pandemic and will be further boosted next year by new production from the newly constructed Roquette plant. Elsewhere, the agricultural sector appears to have had a mixed year in 2020, with farm cash receipts down year-on-year in the first half of 2020, but crop production expanding, and the challenges of canola exports to China (which remain subject to import restrictions) remaining. However, 2021 prospects for the province's crop producers are brighter, as they likely benefit from higher prices amid tighter supply/demand conditions.

Chart 1: New COVID-19 Cases Skyrocket in Manitoba



*7-day moving average.
Source: Government of Canada, TD Economics.

Chart 2: Manitoba's Economy Outperformed Canada's for Much of the Year



Note: Data for retail, wholesale and manufacturing represents their sales agggregate from January - September while employment data is the average level from January - November.
Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-3.9	3.7	2.8
Nominal GDP	-2.7	5.0	4.9
Employment	-3.4	4.0	1.9
Unemployment Rate (%)	7.9	6.3	5.6
Housing Starts (000's)	6.7	6.4	5.5
Existing Home Prices	4.4	2.4	2.1
Home Sales	14.1	9.0	-1.6

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

Ontario

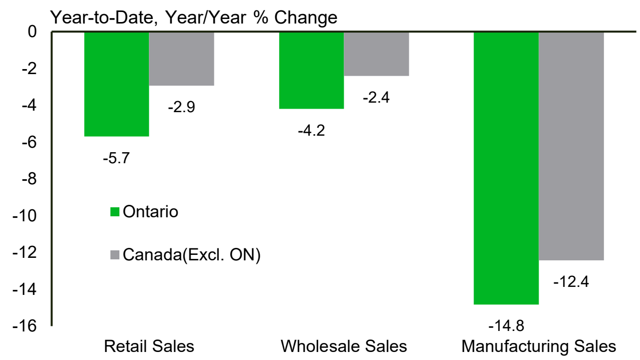
Ontario's economy has faced an even tougher slog than most provinces through the course of the pandemic, in part due to auto sector shutdowns earlier in the year and a lagged re-opening after the first wave of industry closures (Chart 1). And, the province is confronting further headwinds the final quarter of this year, as activity in regions accounting for over 40% of total GDP is hit by renewed measures that are slated to last through most of December, at least. In the near term, we anticipate that Ontario's employment recovery – which from April's depths has trailed Canada's by 2 ppts – will effectively stall.

After decelerating further in the first quarter of 2021, growth prospects are considerably improved, as confidence and spending responds to a rollout of a vaccine. Another plus for the outlook includes GM's decision to return truck assembly to its Oshawa plant, after production was halted in December 2019. In preparation for a return to production in January 2022, the automaker plans to invest around $1 billion to retool its plant. Looking further ahead, medium-term prospects in the auto sector are also brightened by significant investments in electric vehicle production planned by the "Detroit 3" automakers. All told, we foresee a stronger rebound in Ontario than the rest of Canada in 2021, in part reflecting the release of considerable pent-up demand accumulated during the steep contraction this year.

The latest provincial budget revealed the province's intention to increase infrastructure spending through FY 2022/23, which compares favorably to the flat spending profile contained in last year's budget. Meanwhile, Ontario's government is projecting its considerable shortfall to shrink to $28 billion from its current $38.5 billion level by FY 2022/23. However, this lingering deficit, alongside increased infrastructure spending, is expected to push the net debt-to-GDP ratio to 49.6% by FY 2022/23 (Chart 2). This marks an increase of 2.6 ppts from its current level. This could leave the province's fiscal position vulnerable to an unexpected weakening in the economy or sudden backup in interest rates.

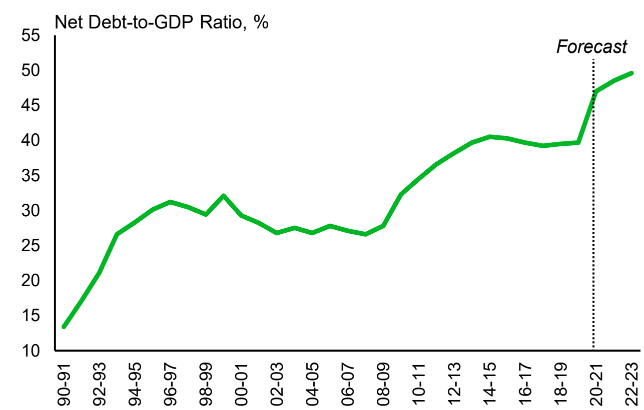
In housing markets, the presence of a vaccine and stronger population growth should support activity next year, though gains will be limited by affordability challenges. Meanwhile, past sales gains should sustain solid levels of homebuilding after a strong year in 2020.

Chart 1: Ontario Economy Has Lagged Canada's in 2020



Note: Data for retail, wholesale and manufacturing represents their agggregate sales from January - September.
Source: Statistics Canada, TD Economics.

Chart 2: Lingering Deficits, Rising Capital Investment to Push Ontario's Net Debt-to-GDP Higher



Source: Ontario Government, TD Economics.

Ontario Economic Forecasts [Annual average % change, unless otherwise noted]			
	2020	2021	2022
Real GDP	-6.2	5.6	4.1
Nominal GDP	-4.9	7.2	6.3
Employment	-5.0	5.7	2.9
Unemployment Rate (%)	9.6	7.5	5.9
Housing Starts (000's)	81.1	82.2	81.3
Existing Home Prices	14.8	-0.6	0.9
Home Sales	8.5	1.0	-2.2

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

Québec

Quebec has instituted a new round of industry closures meant to counteract the sharp rise in COVID-19 cases. About 80% of the population is under "maximum alert" and will remain there until at least January 11th. As a result, the arts/entertainment/recreation and accommodation/food services sectors were dealt yet another blow. These restrictions (which could directly shave about 2.5 ppts from annualized fourth quarter growth), alongside the confidence-sapping impacts of rising cases, will pose a significant setback to the province's recovery.

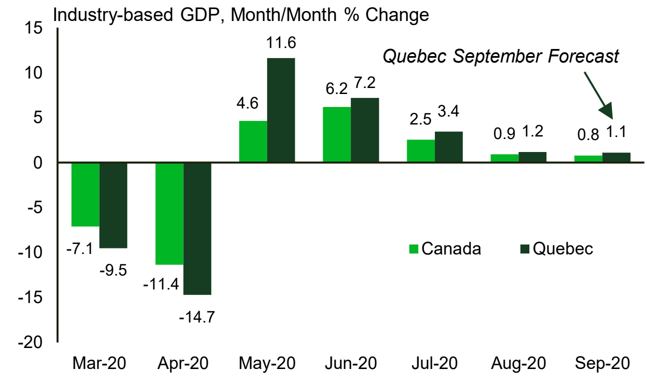
Despite these developments, we've upgraded our growth forecast for this year slightly, largely on the back of what looks to be a solid second half performance. Indeed, we are expecting that real GDP expanded by more than 60% (annualized) in the third quarter, a much stronger outturn than the country overall (Chart 1). This impressive momentum heading into the newest round of restrictions should help to counter their impact on fourth quarter growth.

Household spending, which likely underpinned the massive third quarter expansion, has downshifted considerably in the fourth quarter in the wake of restrictions (Chart 2). However, wages in the province are relatively low on average, which is enhancing the impact of federal income support programs, as these programs have a minimum payment threshold. In addition, households in Quebec are less indebted than their counterparts in other provinces, and savings rates were comparatively high even before the pandemic. These healthy fundamentals will likely support spending through next year.

Sticking with 2021, improved global growth and stronger performances in other provinces should lift manufacturing activity. However, the province's aerospace manufacturing sector could lag, given the likelihood of a protracted recovery in air travel. Elsewhere, robust government program spending should lift growth in the first half of next year. The provincial government also plans to pull-forward capital outlays and tabled a bill to fast-track infrastructure projects earlier in the year. This bill has recently passed, which should lift capital spending in the coming year.

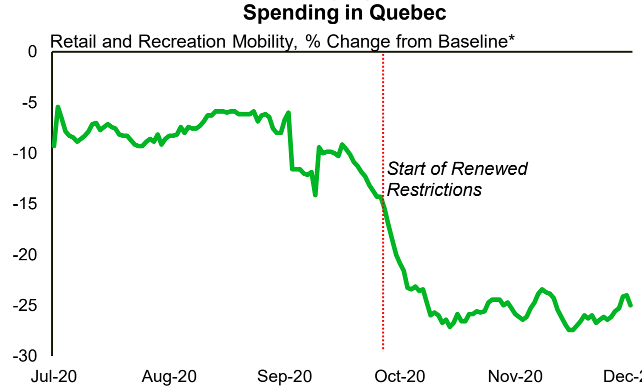
In their latest fiscal update, the province foresees its current $15 billion deficit falling to $7 billion by FY 2022/23 while net debt-to-GDP (currently 3rd highest of all provinces) drops 1 ppt to 42.3%.

Chart 1: After Deep Initial Hit, Quebec's Economy Outperformed for Several Months



Source: Institut de la statistique Québec, Statistics Canada, TD Economics.

Chart 2: Restrictions Playing Havoc with Consumer Spending in Quebec



*7-day moving average.
Note: The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.
Source: Google COVID-19 Community Mobility Reports,TD Economics.

Québec Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-5.2	5.0	3.1
Nominal GDP	-3.9	6.7	5.2
Employment	-4.6	5.1	1.4
Unemployment Rate (%)	8.9	6.3	5.8
Housing Starts (000's)	52.7	46.8	44.1
Existing Home Prices	14.6	0.1	1.4
Home Sales	16.2	5.7	-2.7

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

New Brunswick

New Brunswick's success in containing the pandemic is setting it up for a comparatively shallow economic hit this year. With the exception of some of its Atlantic Canada peers, it has maintained the lowest per capita caseload in all of North America. After witnessing the smallest peak-trough job decline among the provinces this spring, New Brunswick has recorded a relatively swift hiring recovery (Chart 1). Success in containing the pandemic has also reflected in stronger household and retail spending (Chart 2). Despite the pandemic, New Brunswick's housing markets continued to build on last year's torrid pace. Home sales and are on track to record double digit growth this year. Benefitting from past population growth, homebuilding has also grown unabated.

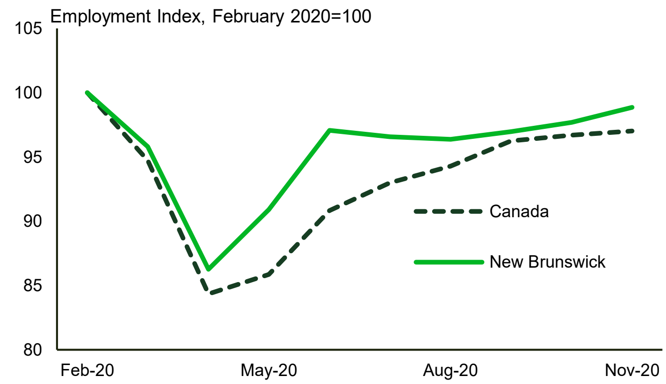
Notwithstanding this relative outperformance, the second wave has not left the province unscathed. Several zones were temporarily placed under the "Orange" public health alert level (with one zone remaining as of December). This level prohibits gatherings beyond the immediate household and introduces capacity limits on business. Importantly, the second wave spelled the end of the "Atlantic Bubble." This will impact the hospitality industries as tourist visits drop from neighboring peers. That said, a low case count and a lack of mandated business closures will likely translate into a less adverse economic impact in New Brunswick.

Elsewhere in the economy, manufacturing and overall exports have been hit by New Brunswick's heavy exposure to petroleum refining. Encouraging vaccine developments bode well for a recovery in 2021.

The 2019 Provincial Economic Accounts revealed above-trend economic performances for New Brunswick and its Maritime peers last year. This was largely facilitated by robust population growth, with far-reaching impacts on labour markets, consumer spending, and housing markets. Executing on the commitments at the federal and provincial levels to ramp up the pace of international immigration will be important to counter New Brunswick's aging demographics and support its economy.

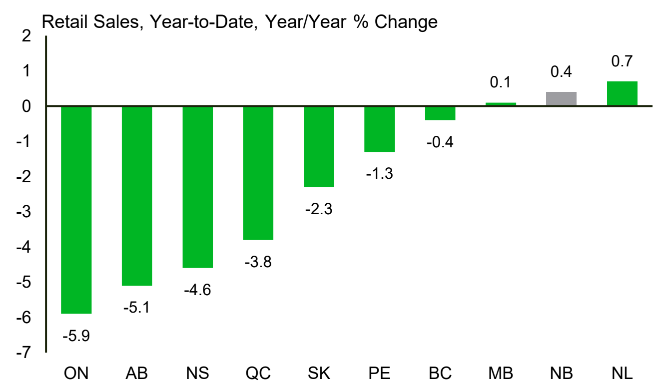
On the fiscal policy front, the New Brunswick government is on track to exit this year with the lowest budget deficit among its peers (at an estimated 0.5% of GDP). This relatively modest deficit reduces the risk that spending cuts and/or tax increases may be required down down the road.

Chart 1: New Brunswick's Labour Markets Have Been More Resilient



Source: Statistics Canada, TD Economics.

Chart 2: New Brunswick's Retail Sales Stronger than Most Provinces This Year



Source: Statistics Canada, TD Economics. Last observation: September 2020.

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-3.0	3.5	2.2
Nominal GDP	-2.2	5.3	4.1
Employment	-2.5	4.1	0.8
Unemployment Rate (%)	9.8	8.6	8.1
Housing Starts (000's)	3.3	3.8	2.6
Existing Home Prices	10.1	3.4	2.2
Home Sales	11.8	8.1	-0.1

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

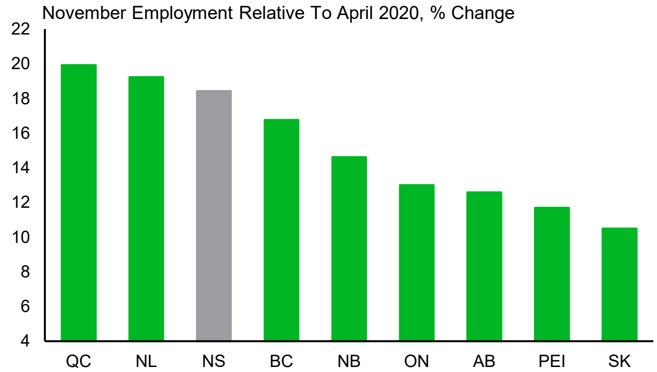
Nova Scotia

Nova Scotia's economy is likely to contract at a steeper rate than most of its Atlantic Region peers this year. Several factors underpin this view, including the fact that the Northern Pulp mill was closed in January, weighing on manufacturing. The province also struggled with the worst COVID-19 outbreak of any Atlantic province during the first wave. This was compounded by an industrial structure that made the province more sensitive to the outbreak, as accommodation and food services and retail trade – two industries that were relatively hard hit this spring – account for an outsized share of output. Lastly, Nova Scotia's important tire manufacturing industry was massively impacted by shutdowns in the North American automotive industry earlier in the year.

Since the ebbing of the first wave in May, Nova Scotia's economy has made huge strides towards recovery. Most notably, since hitting its nadir in April, Nova Scotia has managed the third fastest job growth of any province through November (Chart 1), helped along by a hiring surge in the educational servies sector. Unfortunately, the uptick in caseloads in recent weeks is a clear setback. The 'Atlantic Bubble' –which had been adding some support to tourism among other activities – ceased last month in response to a second wave of infections. Also damaging are the targeted shutdowns in key industries announced in late November. These shutdowns have been applied in parts of the Halifax Regional Municipality, covering about 50% of Nova Scotia's population.

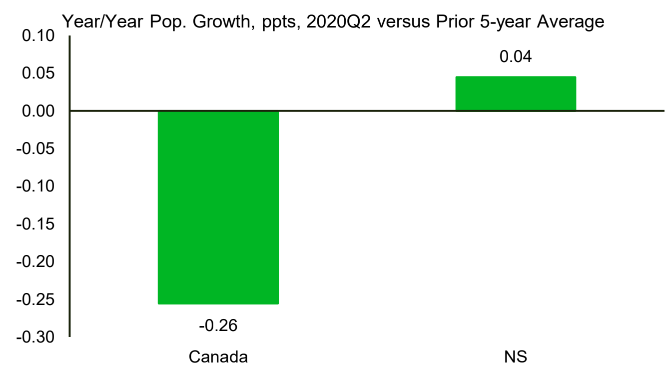
Next year, Nova Scotia's recovery should be helped by improved population growth, which in turn will benefit from higher federal immigration targets and the decision to make the Atlantic Immigration Pilot program permanent. Population growth has been central to the province's improved economic performance in recent years and has even held up relatively well thus far (Chart 2). Robust government capital spending should also aid in the recovery, thanks to a record $1.3 billion in outlays planned for this fiscal year. Non-residential investment is already receiving significant support from on-going major projects, including the decommission of offshore oil projects. And, it could receive a huge medium-term shot in the arm from the Goldboro LNG project, on which a final investment decision is expected next June. Finally, the expectation that the important Chinese export market will grow strongly next year (after posting a "V-shaped" recovery in 2020) will support growth.

Chart 1: Nova Scotia's Jobs Market Has Made Huge Strides Towards Recovery



Source: Statistics Canada, TD Economics

Chart 2: Nova Scotia's Population Growth Holding up so Far



Source: Statistics Canada, TD Economics.

Nova Scotia Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-4.3	4.2	2.4
Nominal GDP	-3.7	6.1	4.4
Employment	-4.5	5.7	0.9
Unemployment Rate (%)	9.5	7.6	7.9
Housing Starts (000's)	4.4	4.8	4.0
Existing Home Prices	12.7	4.5	2.2
Home Sales	12.0	4.2	-1.6

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

Prince Edward Island

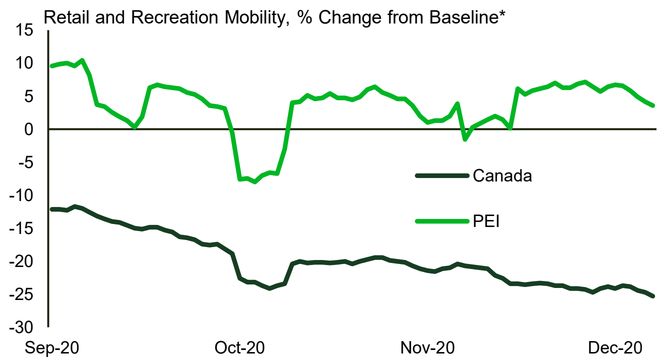
Success for most of the year in keeping the COVID-19 outbreak under control is what should save PEI from an even steeper decline in economic activity this year. Low case counts have provided major support to consumption, as households have had the confidence to go out and spend, and the province had, until December, avoided a second round of industry shutdowns. Notably, retail spending outperformed the country overall through September, and higher frequency data point to this split being maintained into early December (Chart 1). What's more, employment declined by the least of any province through November, bolstering our expectation of a relatively shallow contraction in PEI this year.

However, PEI recently announced a two-week shutdown affecting the arts/entertainment/recreation and accommodation and food services industries. While these measures will no doubt be very difficult for these sectors, their brief duration should ease the impact on overall growth. Elsewhere, there were signs of weakness in the agricultural sector, where production of the Island's staple potato crop dropped 14%, owing to North American restaurant closures earlier in the year.

Looking ahead to 2021, domestic demand should draw support from improved population growth after a temporary lull this year. PEI had been enjoying the strongest trend population gains in the country prior to the pandemic, which was a key factor behind its string of recent economic outperformances. Robust government infrastructure spending is also projected to be another key source of strength.

Despite these positives, there are some areas of concern. For instance, a chunk of the Island's job market outperformance can be chalked up to strength earlier in the year, before the pandemic hit. And, employment growth has been relatively slow since the market bottomed out in April, bogged down by the agricultural, construction and transportation sectors (Chart 2). In addition, the province's important tourism sector has had a tough year, and recently suffered an additional blow from the abrupt end of the Atlantic Bubble. What's troubling is that tourism should be one of the last sectors to fully recover from the pandemic, suggesting weak levels of activity in this sector into 2021.

Chart 1: Retail Activity Performing Comparatively Well in PEI



*7-day moving average.
Note: The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.
Source: Google COVID-19 Community Mobility Reports,TD Economics.

Chart 2: PEI Experiencing Sluggish Jobs Recovery

Source: Statistics Canada, TD Economics.

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-3.1	3.1	2.5
Nominal GDP	-2.8	4.9	4.6
Employment	-2.6	3.2	2.2
Unemployment Rate (%)	10.7	9.7	8.6
Housing Starts (000's)	1.0	1.8	1.2
Existing Home Prices	16.9	0.4	0.9
Home Sales	5.4	-8.2	-2.5

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

Newfoundland & Labrador

Coming off the heels of a strong outturn last year, Newfoundland & Labrador is on track to record the second deepest contraction among provinces in 2020. This year's pull-back could have been worse had it not been for the province's relatively mild virus trajectory.

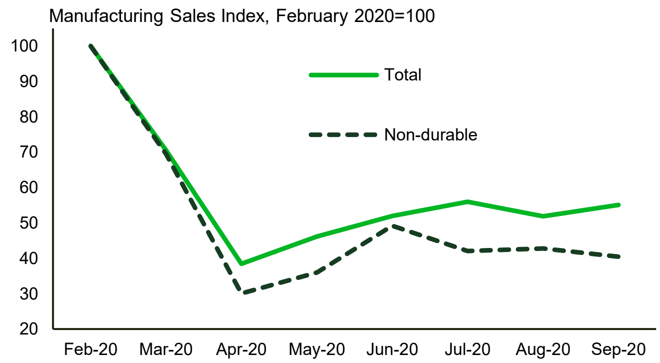
Offshore oil production has held up well relative to that of Western Canada. That said, this year's oil demand shock has had other far-reaching impacts on exports and non-residential construction activity. Operations at the province's refinery remain paused, weighing heavily on factory shipments (Chart 1). Drilling activity at the Hibernia Field has also been halted. A final investment decision on the sizeable Bay Du Nord project was also deferred. Though still not guaranteed, recent funding by the government ($41.5 million) may revive the West White Rose expansion project after it was placed under review earlier this year. Earlier-than-Expected vaccine developments are setting the stage for a gradual recovery in oil demand and Brent prices. Still, business investment will take time to recover following this year's income hit and still-elevated uncertainty in oil markets.

Providing some respite is the province's consistently mild COVID-19 curve. Remarkably, Newfoundland & Labrador is the only province where employment has fully recovered to its pre-pandemic levels (Chart 2). Like its Atlantic Canada peers, this was supported by hiring in the public sector as well as a strong recovery in close-contact industries. The relatively limited spread has also been reflected in consumer spending resilience. Meanwhile, Google's high frequency mobility data continues to point to a notably lesser hit to activity during the second wave compared to other provinces.

The federal and provincial governments have announced plans to boost immigration following this year's pandemic-related pullback. Specifically, in its budget speech, the provincial government has highlighted its goal to ramp up its immigrant intake above 2.5K by 2022. Making good on these plans will be critical to Newfoundland and Labrador's medium-term fortunes. Elsewhere, the provincial government has introduced initiatives to incentivize drilling in its offshore basins and support diversification in the economy.

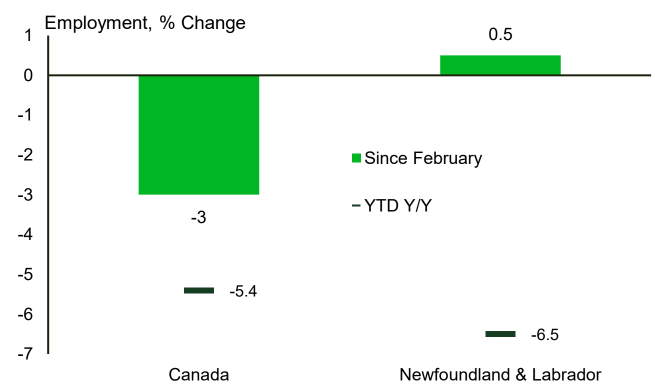
This year's oil shock has dealt a blow to the Province's finances. Its full-year budget revealed a $1.8 billion deficit (6.2% of GDP). As a result, its net debt is expected to surge to 55.7% - the highest in the country.

Chart 1: Manufacturing Sales Dealt a blow, Barely Recovering



Source: Statistics Canada, TD Economics.

Chart 2: Employment Saw a Poor Start in 2020, but Has Recovered from the Pandemic Shock



Source: Statistics Canada, TD Economics.

NFLD & Labrador Economic Forecasts [Annual average % change, unless otherwise noted]			
	2020	2021	2022
Real GDP	-6.2	3.7	2.5
Nominal GDP	-10.9	8.1	5.2
Employment	-5.9	5.0	0.3
Unemployment Rate (%)	13.8	12.5	12.7
Housing Starts (000's)	0.8	1.5	1.1
Existing Home Prices	1.3	1.7	-0.4
Home Sales	9.5	8.4	-4.6

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

Provincial Economic Forecasts

Provincial Economic Forecasts	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
National	**-5.7**	**4.9**	**3.8**	**-5.1**	**7.1**	**5.9**	**-5.2**	**5.4**	**2.4**	**9.5**	**7.3**	**6.2**	**213**	**213**	**208**	**11.7**	**0.9**	**0.9**
Newfoundland & Labrador	-6.2	3.7	2.5	-10.9	8.1	5.2	-5.9	5.0	0.3	13.8	12.5	12.7	0.8	1.5	1.1	1.3	1.7	-0.4
Prince Edward Island	-3.1	3.1	2.5	-2.8	4.9	4.6	-2.6	3.2	2.2	10.7	9.7	8.6	1.0	1.8	1.2	16.9	0.4	0.9
Nova Scotia	-4.3	4.2	2.4	-3.7	6.1	4.4	-4.5	5.7	0.9	9.5	7.6	7.9	4.4	4.8	4.0	12.7	4.5	2.2
New Brunswick	-3.0	3.5	2.2	-2.2	5.3	4.1	-2.5	4.1	0.8	9.8	8.6	8.1	3.3	3.8	2.6	10.1	3.4	2.2
Québec	-5.2	5.0	3.1	-3.9	6.7	5.2	-4.6	5.1	1.4	8.9	6.3	5.8	52.7	46.8	44.1	14.6	0.1	1.4
Ontario	-6.2	5.6	4.1	-4.9	7.2	6.3	-5.0	5.7	2.9	9.6	7.5	5.9	81.1	82.2	81.3	14.8	-0.6	0.9
Manitoba	-3.9	3.7	2.8	-2.7	5.0	4.9	-3.4	4.0	1.9	7.9	6.3	5.6	6.7	6.4	5.5	4.4	2.4	2.1
Saskatchewan	-5.6	4.7	3.8	-8.5	8.5	6.7	-4.8	3.9	2.5	8.2	6.2	5.9	3.1	3.6	4.2	2.8	3.6	1.7
Alberta	-7.3	4.8	4.1	-10.9	9.4	7.2	-7.2	5.0	3.7	11.4	9.5	7.5	24.2	26.1	29.9	3.0	2.1	1.7
British Columbia	-5.3	5.1	4.0	-3.6	7.1	6.1	-6.1	6.2	2.1	8.9	6.3	5.5	35.3	36.3	34.0	10.5	0.2	0.7

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at December 2020.