

# Provincial Economic Forecast

## Economies Turning the Corner But a Tough Road Lies Ahead

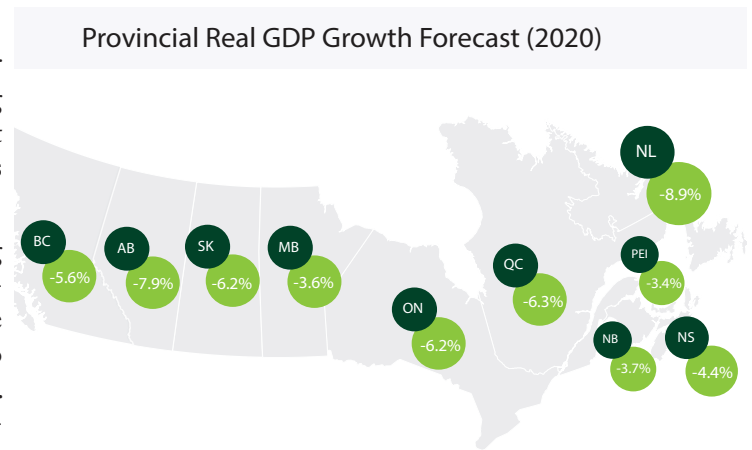
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- With provincial economic data for May flowing in, we are just now getting a true sense of the extent of economic declines suffered from coast to coast in the second quarter. In short, no province will be spared from an unprecedented contraction in activity and jobs.
- As provinces push ahead with their phased re-openings, focus is shifting to the shape of the recovery. Although all provinces are expected to return back to the growth track starting in the third quarter, a number of smaller provinces (i.e., New Brunswick, PEI, and Manitoba) are likely to outperform, reflecting both a more moderate hit from the pandemic and a faster restart.
- In the larger provinces, B.C.'s progress in tackling the pandemic positions it well to perform better than the others this year. Quebec's economy has likely suffered the most initial damage from COVID-19, but has begun the long healing process. Meanwhile, Ontario will likely underperform, partly given its go-slow approach to re-opening.
- Canada's oil-producing provinces have seen their fortunes improve recently, with an easing in lockdowns complemented by rising oil prices. That said, capital spending plans will remain weak amid uncertainty related to the path of global oil demand. We expect Alberta and Newfoundland & Labrador to register the weakest GDP showings this year, with Saskatchewan faring somewhat better.
- The Labour Force Survey for May highlighted the tough slog ahead in provincial job markets. A number of provinces recorded a rebound in jobs last month. However, unemployment rates still moved broadly higher on a bounce-back in participation rates. Partly owing to a still-challenged business environment, unemployment rates are likely to end 2020 2.9-5.7 ppts above their pre-virus levels.
- We've downgraded our near-term expectations for housing markets across the country. Tighter lending conditions, a slow recovery in job markets, and soft population growth will dampen home sales, prices and housing construction moving forward.
- In 2021, a rebound in growth rates conceal ongoing moderate recoveries from the crisis, while some permanent scarring leaves unemployment rates on the elevated side. The largest provinces are expected to record some convergence on the smaller provinces. However, ongoing soft oil market conditions in Alberta will likely leave it on its back foot.



Source: TD Economics. Forecast as of June 2020.

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

## British Columbia

With the focus now shifting to the shape of the recovery, B.C. enjoys an edge relative to other large provinces. It has been among the most successful in bending the COVID-19 curve (Chart 1). B.C. is now approaching Phase 3 of its reopening plan, after which restrictions will remain in place only on international tourism and activities where larger gatherings are the norm.

Although still early days, this success in tackling the pandemic has manifested in comparatively better indicators. For instance, B.C.'s manufacturing sales fell by a cumulative 14.7% through March and April. This compared favorably with the drastic 35.5% drop seen nationally. In March, retail sales fell by 4.6%, compared to 10% nationally. Mobility data have outpaced those of Central Canada, and restaurant activity is gradually picking up (Chart 2).

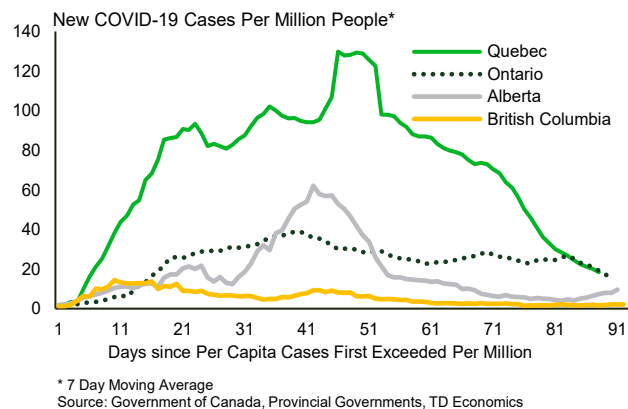
B.C.'s diverse economy has allowed for some pockets of relative strength. Its non-residential construction sector has also seen scaled back activity and employment. However, progress on key projects such as the TransMountain pipeline, the Site C Dam, and LNG Canada, has reportedly either remained on track or experienced only minor setbacks.

With these green shoots in mind, B.C.'s economy still faces notable pressures. The province's reliance on its tourism sector, where prospects remain challenged over the near term, is among the highest in Canada. Moreover, the hit to labour markets since February has been roughly equal to that suffered nationwide. Indeed, employment is still a stark 13.9% below its February levels (compared to 14.1% nationally). Encouragingly, May's jobs report showed a 2% m/m gain, and earlier reopening plans should result in a further pick up during the summer.

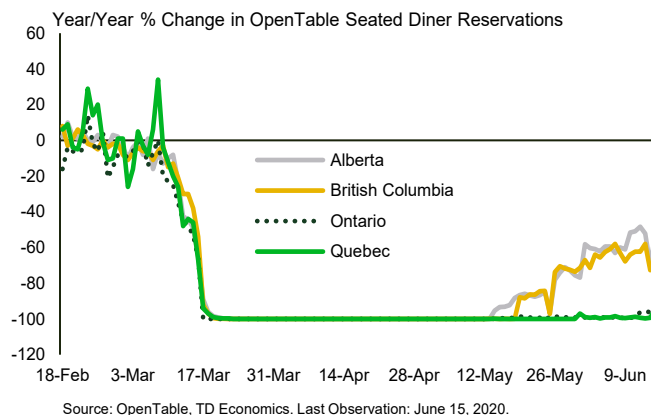
On the housing market front, the picture is also mixed. B.C.'s home prices have showed some resilience during the pandemic. However, a likely slowdown in population growth due to reduced immigration and tightening to mortgage rules is expected to weigh on prices in the upcoming quarters.

B.C.'s fiscal position remains the envy of other provinces. B.C.'s government has responded to the crisis by earmarking about \$5 billion, with dedicated funding to the post-COVID recovery (\$1.5 billion). This package comes on top of a hefty 2020/21 capital spending plan. Coffers are taking a substantial hit, but its net debt/GDP ratio is expected to be among the lowest in the country as it exits the crisis.

**Chart 1: B.C. was Able to Bend Its COVID-19 Curve Earlier than Other Large Provinces**



**Chart 2: B.C. Seeing a Gradual Uptick in Seated Restaurant Diners**



British Columbia Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	2.8	-5.6	5.4
Nominal GDP	5.3	-3.1	7.4
Employment	2.6	-7.1	6.8
Unemployment Rate (%)	4.7	9.0	6.6
Housing Starts (000's)	45.1	35.0	35.4
Existing Home Prices	-1.5	3.3	-2.5
Home Sales	-1.5	-15.6	22.6

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

## Alberta

Alberta is experiencing its third deep recession in less than a decade, owing to the 1-2 punch from COVID-related restrictions and the oil price collapse. On a brighter note, recent improvements in oil prices and progress in reopening the economy suggest that the the worst is in the rear-view mirror. However, a long, arduous recovery period awaits the province's economy.

The freefall in oil prices in the March-April period (Chart 1) prompted producers in Alberta to slash capital spending plans and cut production by a reported 1 million barrels per day (slightly more than 25% of production). As a result, Alberta's oil output has been hit harder during this year's pandemic relative to the 2014 oil price shock.

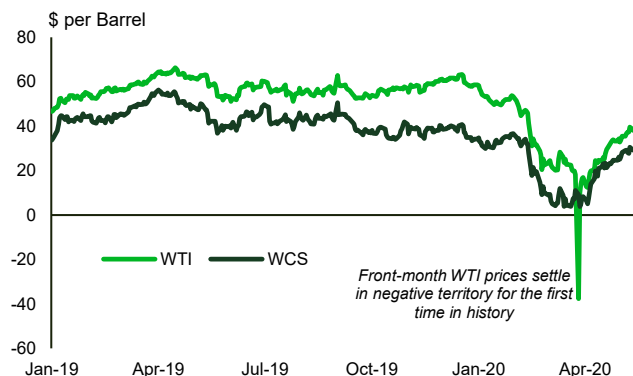
Since May, a recovery in WTI prices back up to around \$37 per barrel has provided a much-needed lift to sentiment. Additionally, the reduced production in Western Canada has supported a narrowing in the WCS-WTI price spread in recent weeks. Still, with little further upside in prices expected over the near term, capital spending plans are likely to remain subdued.

This year's recession is dealing a further blow to labour markets, which had yet to heal from the 2014 oil price shock. Indeed, Alberta's unemployment rate is now projected to be the highest outside of Newfoundland & Labrador this year. In turn, this unfavorable backdrop will weigh on already-wary consumers and housing markets.

Despite this challenging environment, we take some comfort in the province's success in containing COVID-19 and strides made on its reopening plans. Elsewhere in the economy, the pickup in mobility indicators in Alberta has outpaced that of Central Canada (Chart 2). We expect further improvements to be mirrored in stronger near-term activity in the services sector. Importantly, the province's small business confidence now stands above the national average.

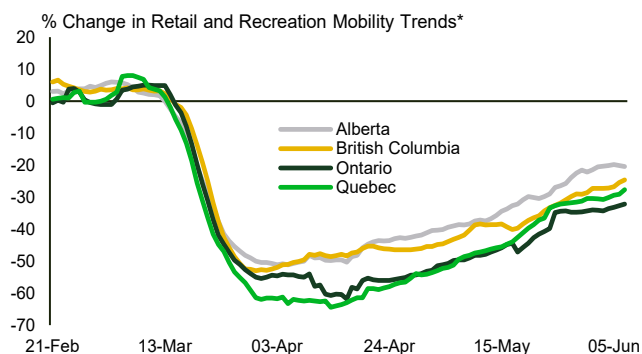
In response to the unprecedented hit, the Province has committed one of the largest stimulus packages among the provinces. Notably, the Alberta government has announced a \$1.5 billion direct equity investment in the Keystone XL pipeline, \$6 billion in loan commitments to the project, and \$1.9 billion in infrastructure outlays. Alberta's still relatively low debt burden leaves it with the capacity to undertake this level of spending, but will exit this crisis with a notably worsened debt trajectory.

**Chart 1: March and April Saw Unprecedented Movements in Global Oil Markets**



Source: Bloomberg, TD Economics. Last Observation: June 15, 2020.

**Chart 2: Alberta's Mobility Data Compares Favourably to Other Large Provinces**



\* Mobility trends relative to a baseline pre-COVID period (median value for the corresponding day of the week during Jan 3 - Feb 6). 7-Day Moving Average  
Source: Google, TD Economics. Last Observation: June 7, 2020.

Alberta Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	-0.6	-7.9	5.7
Nominal GDP	1.1	-12.1	9.1
Employment	0.5	-8.7	6.3
Unemployment Rate (%)	6.9	12.2	9.6
Housing Starts (000's)	27.3	23.4	25.6
Existing Home Prices	-2.4	-1.4	-2.3
Home Sales	-0.2	-16.5	11.7

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

## Saskatchewan

Despite facing the double whammy of an oil price shock and COVID-related restrictions, Saskatchewan has been turning in a better economic performance than we had anticipated in our April Update. This year's contraction is still expected to be hefty, but at least the province is now tracking close to the national average.

Saskatchewan has been relatively successful at reining in the pandemic - with relatively low case counts and an encouraging downtrend since May. As a result, mobility indicators have consistently outpaced the national average (Chart 1). Retail sales in Saskatchewan suffered the smallest drop nationally in March (-1.5% m/m), and relative resilience in April's new vehicle sales data points to continued retail trade outperformance last month.

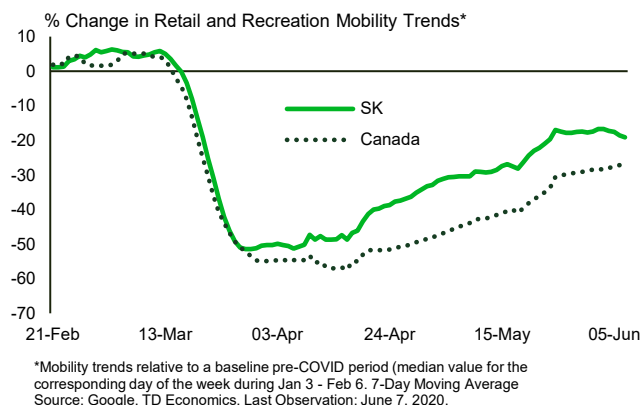
Turning to labour markets, the province has enjoyed an edge relative to most other provinces. Saskatchewan has suffered a smaller drop in employment and hours worked during the pandemic, and currently has the lowest unemployment rate outside of Manitoba.

Saskatchewan's relatively diverse commodity sector has shown its mettle in recent months, holding up relatively well in the face of sharply contracting global activity. Two industries that are better shielded from the impacts of COVID-19 than most other sectors are food/agricultural exports and potash. Rising activity in these areas is expected to support exports (Chart 2) and cushion the blow from ongoing weakness in oil production and capital spending. On the plus side, oil prices have rebounded moderately from their lows recorded earlier this year, which should support a stabilization in oil activity in 2021.

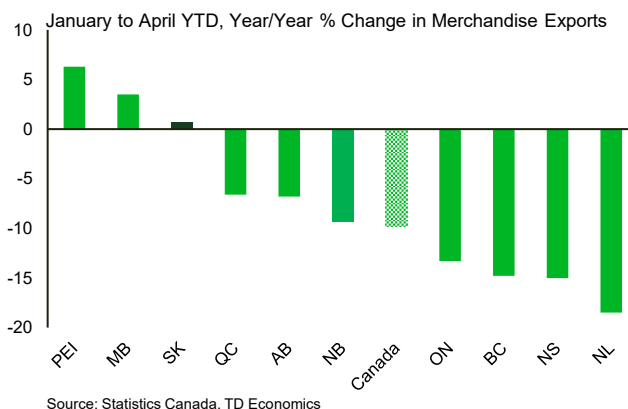
Despite relatively resilient resale activity so far this year, oversupply remains a challenge in the housing market. As a result, average home prices are expected to drift lower on an annual average basis this year and next.

In its recently-released 2020 budget, the provincial government highlighted the \$2 billion upgrade to its capital spending plan in response to COVID-19. This should provide a much-needed boost to non-residential construction investment. Like its peers, the Province is forecasting a record deficit this year. (\$2.4 billion). However, successful strides made by the government in reducing deficits and containing growth in its net debt following the 2014 oil price shock has afforded some additional wiggle room.

**Chart 1: Saskatchewan's Mobility Trends Have Outpaced the National Average**



**Chart 2: Saskatchewan's Exports Have Fared Better than Most Provinces' so Far this Year**



Saskatchewan Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	-0.8	-6.2	4.7
Nominal GDP	0.6	-8.0	7.2
Employment	1.6	-6.1	4.2
Unemployment Rate (%)	5.4	9.3	7.5
Housing Starts (000's)	2.4	2.5	3.6
Existing Home Prices	-0.5	-2.0	-2.6
Home Sales	1.1	-1.7	11.0

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

## Manitoba

The COVID-19 outbreak in Manitoba has been less severe than in most other provinces (Chart 1). As a result, Manitoba has side-stepped some of the economic damage felt in other parts of the country. In the jobs market, employment plunged 12%, while hours worked were down 17%, from February through May. While still nightmarish collapses, the rest of the country fared even worse. Similarly, retail spending and non-residential building fell by comparatively less in March, while wholesale trade and manufacturing shipments managed to rise (Chart 2). The latter could partly reflect timing, as the pandemic struck later in March. However, more current data also points to the province holding up comparatively well. As such, we see Manitoba's economy contracting by less than the country overall this year.

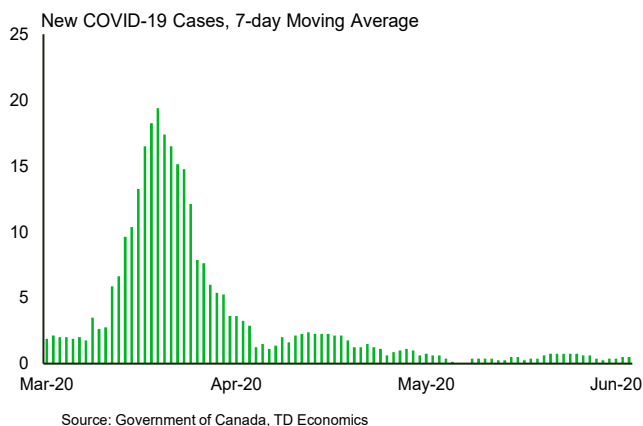
The composition of Manitoba's well-diversified economy should help cushion the blow from COVID-19. For example, tourism activity, which has been decimated by the pandemic, accounts for a low share of economic activity. On the other hand, food manufacturing, which represents a relatively large share of output, is likely to outperform.

Success in containing its COVID-19 curve has allowed Manitoba to move to Phase 2 in its re-opening plan. With this development, virtually all of the industries that were temporarily closed to combat the spread of the virus have re-opened, although several must operate with capacity constraints. The province hopes to move to Phase 3 by June 21st, which would, among other things, relax occupancy rules for several sectors and lift limits on public gatherings.

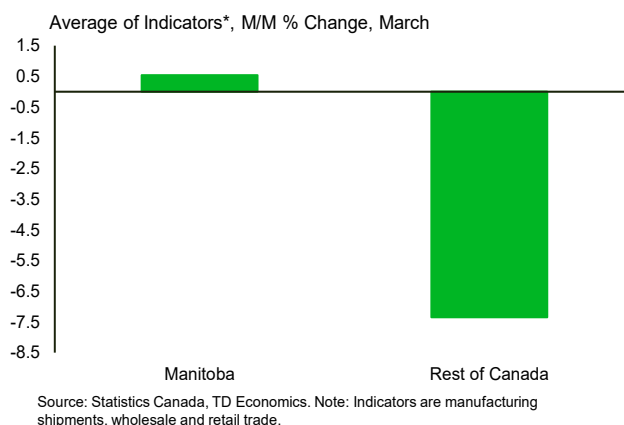
These positive developments notwithstanding, there are some key factors that will restrain growth this year. Non-residential investment is likely to decline as the massive Keeyask project winds down. This is despite a \$500 million investment in "shovel-ready" infrastructure projects by the province, which should support growth, both this year and in 2021. In addition, China's ongoing ban on canola imports will continue to dampen output in Manitoba's agricultural industry. Furthermore, the province's heavy reliance on interprovincial shipments, particularly to Alberta and Saskatchewan, leaves it exposed to the weakness taking place in those provinces.

Next year should see much better growth, as the economy is boosted by rising demand from other Canadian provinces and U.S. markets as their economies improve.

**Chart 1: Manitoba Has Flattened its COVID-19 Curve**



**Chart 2: Manitoba Holding Strong Through the Pandemic**



Manitoba Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	1.0	-3.6	3.0
Nominal GDP	1.9	-2.5	3.9
Employment	0.9	-4.2	4.6
Unemployment Rate (%)	5.3	8.4	6.7
Housing Starts (000's)	7.0	5.8	6.0
Existing Home Prices	0.1	-0.2	0.1
Home Sales	8.5	-1.3	19.4

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

## Ontario

As the province with the second worst COVID-19 outbreak, Ontario has not only suffered larger pandemic-related disruptions than most other regions, but appears to be lagging behind in the early stages of recovery. Notably, it was the only province which didn't record a job gain in May and has seen employment fall by more than the rest of the country during the outbreak. This in part reflects Ontario's go-slow approach towards re-opening its economy as well as global demand headwinds and supply chain constraints that continue to impart a substantial blow to the auto and overall manufacturing sectors.

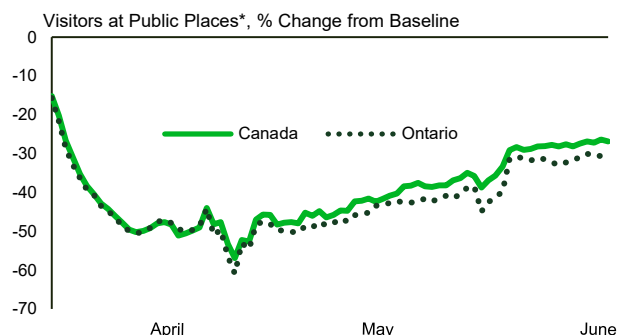
Ontario's cautious stance on re-opening shows itself in mobility trends depicting a slower recovery in consumer traffic compared to other jurisdictions (Chart 1). However, the province announced a partial reopening of retail stores, the resumption of certain medical services, and the re-start of several other industries following the Victoria Day weekend. This should feed through to the start of a job market recovery beginning in June. In addition, much of Ontario recently entered Stage 2 of its re-opening plan, which allows certain personal services, shopping malls (under restrictions) and several other industries to re-start.

Elsewhere, goods exports plunged by 40% m/m in April (compared to a 22% drop in imports), as shipments of vehicles plunged at an almost-unbelievable 90% rate (Chart 2). Fortunately, auto plants came back online through May, with production likely to ramp up in relatively short order. In tandem with an improving U.S. economy, this should support a snap-back in exports in the second half.

Ontario has experienced the steepest decline in home sales since the onset of the pandemic. And, the likelihood that the province's formerly strong population growth will slow to a crawl in the near term will keep home sales subdued, even as they continue to bounce off their April lows, thereby putting a significant damper on price growth after double-digit annual gains to begin the year.

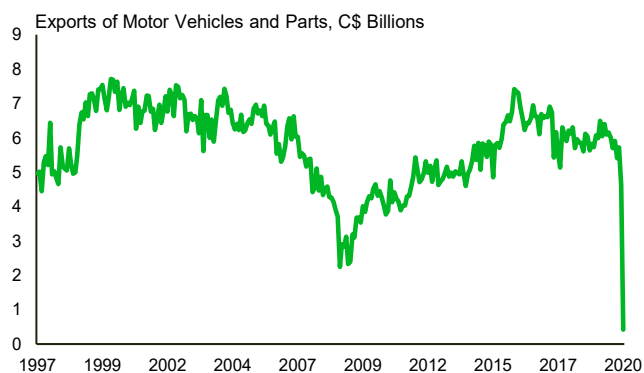
Substantial government support is helping to cushion the blow from COVID-19. The provincial government has committed to support totalling around 3% of GDP. At the same time, the province's large financial services sector is buffering the jobs market, with employment in this industry roughly flat since the onset of the pandemic.

**Chart 1: Mobility Data Points to Lagging Activity in Ontario**



Source: Google, TD Economics. Data is the average of percentage change in visits to retailers, groceries/pharmacies and public transit, compared to the baseline period, measured between Jan 3- Feb 6th, 2020. Note: Public places represents retailers, grocery stores, pharmacies, and public transit.

**Chart 2: Plunging Vehicle Exports Put the Brakes on Overall Shipments in Ontario**



Source: Statistics Canada, TD Economics

Ontario Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	1.9	-6.2	5.1
Nominal GDP	4.1	-3.7	6.8
Employment	2.9	-6.0	5.9
Unemployment Rate (%)	5.6	9.6	7.3
Housing Starts (000's)	69.0	74.6	76.6
Existing Home Prices	6.2	4.2	-1.7
Home Sales	8.9	-16.9	15.4

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

## Québec

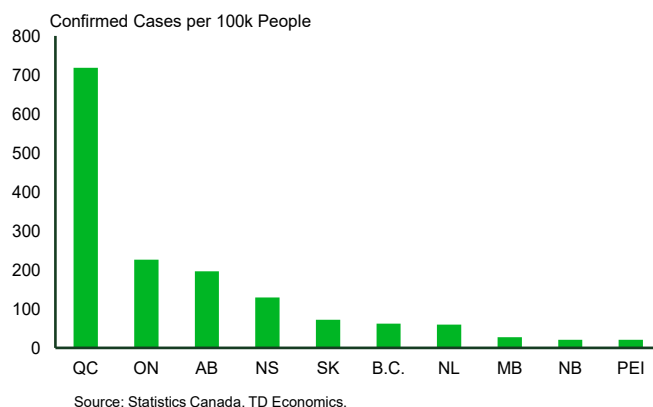
The COVID-19 outbreak hit Québec especially hard. The province has seen over 50,000 cases, about 70% higher than second-worst hit Ontario (Chart 1). The gravity of the situation in Québec necessitated the imposition of (by far) the most severe social distancing measures in the country. By our count, about 40% of economic activity in Québec was deemed non-essential and temporarily shuttered by the provincial government in order to combat the spread of the virus. This includes much of the construction and manufacturing industries, which were mostly able to avoid closing in other provinces. The real estate industry was also labelled as non-essential, although transactions have continued, lessening the impact on overall growth.

These measures likely caused Québec's economy to contract at a steeper rate than the rest of Canada in March and April. This is evident in the jobs market, where employment dropped by 20% during that time (with a notable 40% collapse in construction jobs) compared to a 15% decline elsewhere in Canada (Chart 2). A similar story is told through the hours worked and retail trade data, although the latter only spans through March.

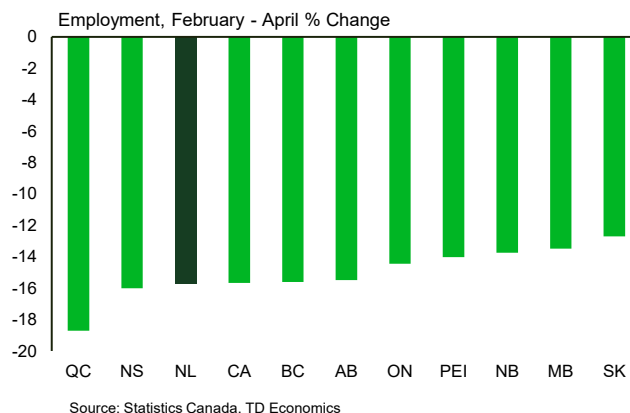
Still, prospects for a turnaround are looking up heading into the summer. The aggressive earlier steps taken by the province have paid dividends, with new COVID-19 cases slowing rapidly in recent weeks. In addition, the province continues to roll out its ambitious re-opening plan, which has seen the construction, manufacturing, real estate, many retail, and numerous personal services industries re-open since mid-May. Pre and elementary schools outside of Montreal also re-opened at that time. The restart of these industries has given a lift to the economy, with the province adding 230k net new positions during the month. This marked the largest gain in the country. Many private health care services have also now restarted as of June, in addition to restaurants. These developments, alongside government support rolled out during the pandemic – including an additional \$2.9 billion in infrastructure spending this fiscal year – points to much better second half growth.

A word of caution is warranted, as it will take time for capacity to fully return to these industries. For example, traffic at retailers remains well below early-year levels despite an uptick in late May tied to store re-openings in Montreal. In addition, the province is still very much battling the COVID-19 pandemic, accounting for nearly 90% of active cases in the country.

**Chart 1: Québec Has Struggled With the Worst COVID-19 Outbreak by Far**



**Chart 2: The Pandemic Hammered Québec's Economy in March and April**



Québec Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	2.7	-6.3	5.3
Nominal GDP	4.4	-4.0	7.0
Employment	1.7	-6.8	6.0
Unemployment Rate (%)	5.1	10.1	7.2
Housing Starts (000's)	48.1	39.6	37.9
Existing Home Prices	5.1	7.9	-0.3
Home Sales	11.8	-5.6	25.2

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

## New Brunswick

While still a tough year by any stretch, New Brunswick is on track to record the third smallest decline in real GDP this year among the provinces. This relative outperformance is aided by success in tackling the pandemic. Strict initial restrictions and a quicker flattening of its COVID-19 curve paved the way for an earlier reopening than in most provinces. New Brunswick managed to proceed to the “Yellow” phase of the recovery in late May, leaving only limited types of activities restricted. In turn, it has recorded better mobility indicators relative to most peers.

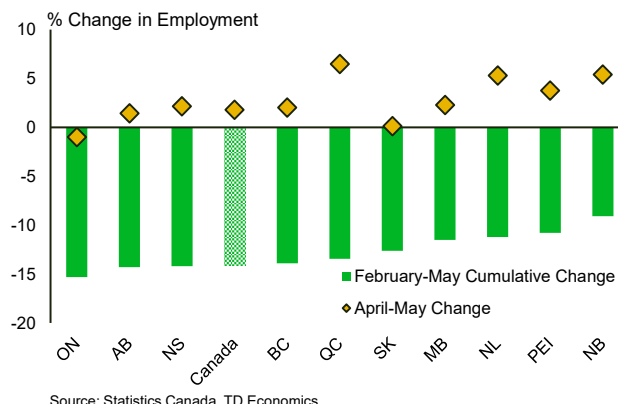
New Brunswick’s outperformance is most evident in its labour markets (Chart 1). The province has suffered the lowest contraction in employment since February (-9.1% compared to -14.1% nationally) and the second highest rebound in May (5.8%). Hours worked have also fallen by less than average and its unemployment rate is now the third lowest in the country. A recent survey by the Canadian Federation of Independent Business (CFIB) highlighted that the province has the highest proportion of small businesses that have now fully reopened (Chart 2).

Home resale activity has benefitted from a mix of strong momentum heading into the pandemic, a lesser hit to employment, and past gains in population growth. In contrast to most provinces, average home prices are expected to avoid dipping into negative territory in the next two years. However, reduced immigration (and thus lower population growth) will likely cap any meaningful acceleration.

With this in mind, it is important to note that New Brunswick’s economy won’t be left unscathed by the pandemic. Heavily geared towards oil products and other commodities, New Brunswick’s manufacturing shipments and exports have plummeted since February. New Brunswick also suffers from a weak handoff in its mining sector given the permanent closure of the Belledun lead smelter late last year. Additionally, non-residential construction plans were already lackluster prior to the onset of COVID-19.

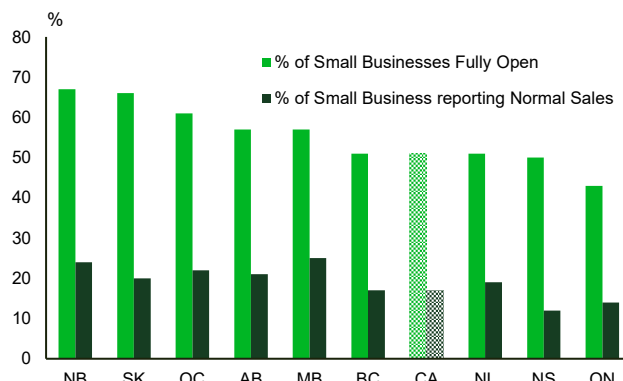
The government has offered bridge support, payment deferrals and working capital in response to the pandemic. Reflecting these measures, the Province is now projecting a \$300 million deficit this fiscal year. While marking a sharp turnaround from its March 2020 budget surplus projection of \$92 million, this revised tally is significantly smaller than some analysts had anticipated ahead of its May Update.

**Chart 1: New Brunswick’s Labour Markets Have Suffered the Least Significant Hit so Far**



Source: Statistics Canada, TD Economics

**Chart 2: A Greater Percentage of Small Businesses Have Reopened in New Brunswick**



Source: CFIB, TD Economics. Last Observation: June 16, 2020.

New Brunswick Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	1.0	-3.7	3.0
Nominal GDP	2.8	-1.8	4.9
Employment	0.7	-4.4	2.9
Unemployment Rate (%)	8.0	10.4	9.1
Housing Starts (000's)	2.9	2.8	3.3
Existing Home Prices	2.7	5.6	1.8
Home Sales	13.4	-10.0	9.7

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



## Nova Scotia

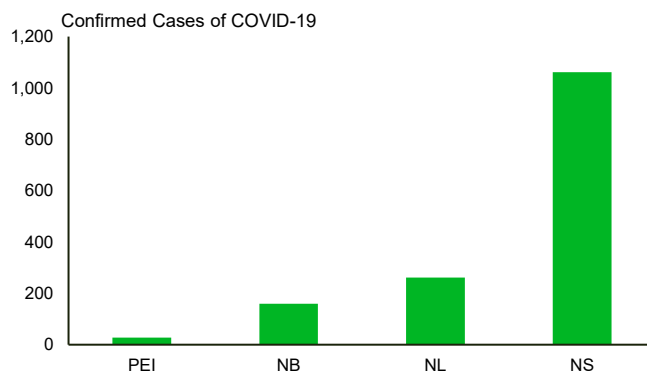
Nova Scotia has the dubious distinction of having the most COVID-19 cases in the Atlantic Region (Chart 1), and 4th most, on a per-capita basis, among the provinces. The extent of the outbreak forced a strict adherence to social distancing by Nova Scotians. Indeed, mobility data showed less traffic at retailers, grocery stores and public transit, compared to the rest of Atlantic Canada, through May. This is despite a comparatively small amount of businesses being forced into temporary shutdowns versus other, highly affected provinces like Ontario and Quebec. This combination of forced closures and voluntary distancing has deeply affected Nova Scotia's economy, with employment down 14% from February through May. The pandemic itself has also weighed, with the illness forcing Irving Shipbuilding to lay off 1,100 employees in March.

Although Nova Scotia has a high number of cumulative cases, the bulk of them were recorded in March and April. New cases have fallen dramatically through May and June, paving the way for industry re-openings. Nova Scotia has generally avoided a phased approach, with most industries re-started on June 5th, and daycares following suit on June 15th. This should result in a burst of activity in June, as pent-up demand is unleashed, and set the table for improved growth in the back-half of the year. Nova Scotia's economy will also draw support, over the forecast horizon, from a robust government infrastructure program as expenditures are forecast to double this fiscal year, with an additional \$230 million recently pledged.

Even before the pandemic hit, Nova Scotia's economy was likely to record sluggish growth in 2020. A chunk of this weakness is chalked up to the closure of the Northern Pulp mill in January, with negative indirect impacts to industries along its supply chain. For many years, the mill sent its effluent to the Boat Harbour treatment site. With the mill closed, the Province will move forward on its plan to clean up Boat Harbour. This large-scale project will cost at least \$217 million and is slated to start next year.

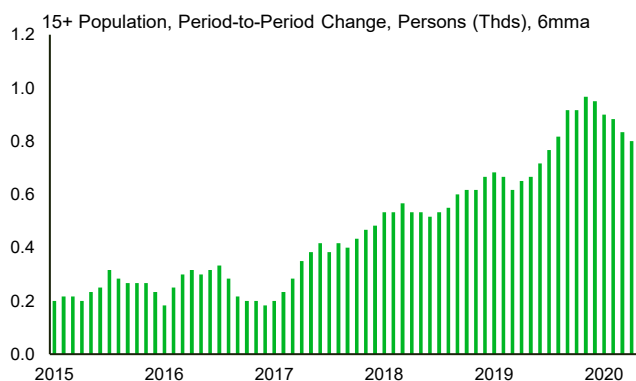
A strong expansion of Nova Scotia's population had been supporting growth in recent years (Chart 2). However, we expect a notable slowdown in population growth to take place in the near-term. This means that housing demand, construction, and consumer spending will take a hit, further lengthening the time required for a recovery to manifest.

**Chart 1: Nova Scotia Had the Worst Outbreak of Cases in the Atlantic Region**



Source: Government of Canada, TD Economics. Last observation: June 16, 2020.

**Chart 2: Pandemic to Cool Nova Scotia's Formerly Strong Population Growth**



Source: Statistics Canada, TD Economics

Nova Scotia Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	2.1	-4.4	3.4
Nominal GDP	4.1	-2.4	5.2
Employment	2.2	-7.0	3.8
Unemployment Rate (%)	7.2	11.0	9.2
Housing Starts (000's)	4.7	4.1	4.6
Existing Home Prices	8.0	4.3	0.0
Home Sales	10.6	-14.1	12.3

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

## Prince Edward Island

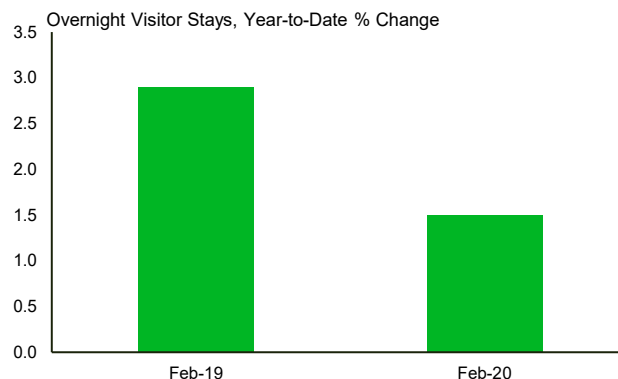
Prince Edward Island has enjoyed considerable success in containing its COVID-19 outbreak. The first case didn't arrive on the Island until March 15th – later than most provinces. And, the last new case was recorded in late April, yielding the lowest per capita level of cases of any province in the country. A lack of testing is not driving this result either, as PEI has testing rates that exceed all but the most heavily impacted provinces.

This less-damaging experience with the illness so far has stoked a broad outperformance for PEI's economy, compared to the rest of Canada. This is evident in the labour market, where the Island has shed 11% of its jobs through the pandemic – a better result than the 14% plunge observed for Canada overall. As such, a lesser contraction in PEI's economy is anticipated this year. Still, PEI's re-opening plan is relatively cautious, which has prevented an even larger gap with the rest of Canada from emerging. For example, personal services and certain public spaces were only allowed to open on June 1st – a similar timeframe to Quebec and well after Manitoba, two provinces that were harder-hit by the pandemic.

The COVID-19 pandemic has still left marks on some of the Island's key industries. PEI's potato production industry suffered under the weight of widespread restaurant closures in U.S. and Canada. Fortunately, this trend should turn around as restaurants continue to re-open and ramp up. However, the same probably can't be said for PEI's out-sized tourism industry, which should experience depressed conditions for several quarters to come (Chart 1).

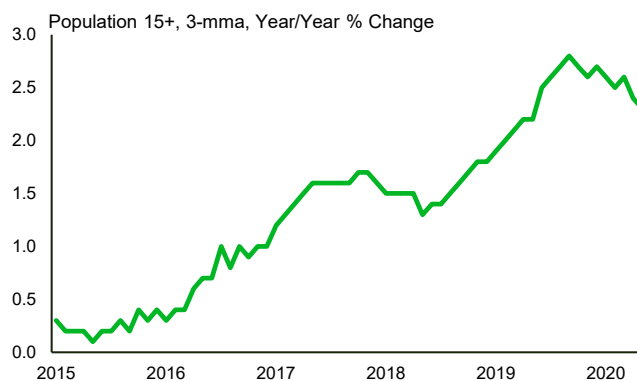
PEI has recorded the strongest population growth in the country in recent years (Chart 2). Indeed, the gap in population growth between PEI and Canada was the largest on record last year. This strength has underpinned the robust economic expansion observed in PEI. Moving forward, population dynamics will play a nuanced role in shaping PEI's economy. On the one hand, past gains will be a source of pent-up demand for housing. On the other, slower population growth moving forward will take some steam out of the Island's recovery in the second half of this year and 2020 and 2021. Fortunately, the provincial government has planned a robust infrastructure program, which should support growth through 2021.

**Chart 1: Tourism in PEI Already Softening Heading into the Pandemic; Industry to Suffer Deeply Due to COVID-19**



Source: Tourism Industry Association of PEI, TD Economics

**Chart 2: Population Growth Already Cooling Before COVID-19; The Pandemic Should Exacerbate this Trend**



Source: Statistics Canada, TD Economics

P.E.I. Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	4.5	-3.4	2.5
Nominal GDP	6.6	-1.5	4.2
Employment	2.7	-2.8	3.0
Unemployment Rate (%)	8.8	10.9	9.8
Housing Starts (000's)	1.3	0.9	1.6
Existing Home Prices	11.7	10.8	-0.4
Home Sales	-6.8	-18.2	1.7

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

## Newfoundland & Labrador

Newfoundland & Labrador's economy is expected to record the deepest contraction this year among the provinces, as COVID-19 and a collapse in oil prices earlier this year deliver a severe blow across its major industries.

Brent prices have staged a gradual recovery since May, but still remain more than 35% below pre-COVID levels. This unprecedented shock to the oil sector prompted producers to take a cleaver to spending plans. For instance, drilling activity was halted and layoffs were announced at the Hibernia field. Likewise, construction has reportedly ceased at the West White Rose expansion project. Exploration activity in the Flemish Pass Basin will likely take back seat amid uncertainty related to global oil demand. In a similar vein, a final investment decision on the large Bay Du Nord project has been put on hold.

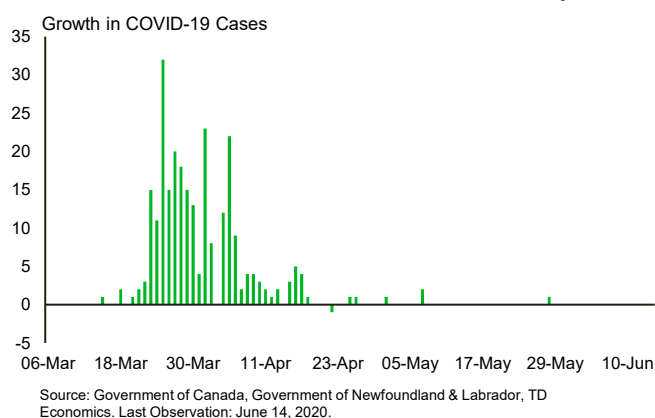
With the oil shock impacting the entire value chain, Newfoundland & Labrador's Come by Chance refinery – responsible for processing up to 130K bpd of crude oil products – had announced a temporary shutdown of operations. Outside of the energy sector, activity was also paused for at Voisey's Bay nickel mine. The metals industry also faces weaker incomes given the broad drop in commodity prices since February.

Elsewhere in the economy, Newfoundland & Labrador has been amongst the slowest in relaxing COVID-19 restrictions, with retail stores and restaurants only allowed to reopen once Alert Level 3 was implemented on June 7th. The silver lining to this is that the province has not recorded any new cases since late May (Chart 1). This should lessen the likelihood of a second wave and provide reassurance to consumers as the economy reopens.

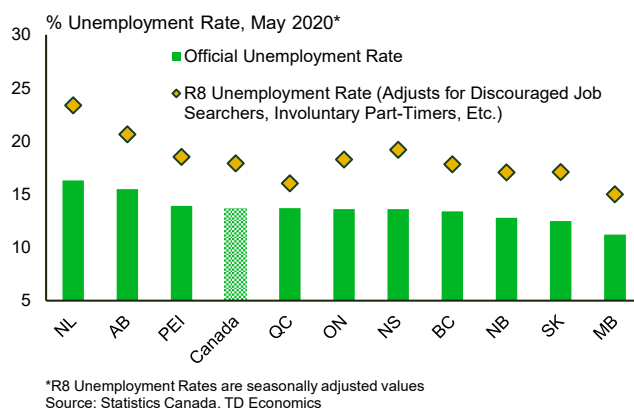
Newfoundland & Labrador has shed less jobs compared to most other provinces since February. That said, the labour market backdrop is still struggling deeply. Indeed, Newfoundland & Labrador has had four consecutive quarters of job losses, and will continue to grapple with the highest unemployment rate in the country (Chart 2).

The Province's recently released a fiscal update showed a further worsening of its 2019-20 structural deficit. This year, revenues are expected to suffer a sizeable drop given its heavy reliance on oil royalties. Amid this wide budget shortfall and lofty net debt burden, the Province has held the line on delivering significant COVID-19 stimulus efforts.

**Chart 1: Newfoundland & Labrador Hasn't Recorded New COVID-19 Cases since Late May**



**Chart 2: Newfoundland & Labrador Suffers from an Elevated Unemployment Rate**



NFLD & Labrador Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	4.0	-8.9	3.5
Nominal GDP	5.6	-12.5	5.7
Employment	0.7	-8.8	1.8
Unemployment Rate (%)	11.9	14.8	13.9
Housing Starts (000's)	0.9	0.5	1.3
Existing Home Prices	-3.0	-2.5	-2.8
Home Sales	9.6	-13.1	11.6

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.)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
<b>National</b>	<b>1.7</b>	<b>-6.1</b>	<b>5.2</b>	<b>3.6</b>	<b>-4.9</b>	<b>7.0</b>	<b>2.1</b>	<b>-6.6</b>	<b>5.8</b>	<b>5.7</b>	<b>10.0</b>	<b>7.6</b>	<b>209</b>	<b>189</b>	<b>196</b>	<b>2.3</b>	<b>2.3</b>	<b>-1.0</b>
Newfoundland & Labrador	4.0	-8.9	3.5	5.6	-12.5	5.7	0.7	-8.8	1.8	11.9	14.8	13.9	0.9	0.5	1.3	-3.0	-2.5	-2.8
Prince Edward Island	4.5	-3.4	2.5	6.6	-1.5	4.2	2.7	-2.8	3.0	8.8	10.9	9.8	1.3	0.9	1.6	11.7	10.8	-0.4
Nova Scotia	2.1	-4.4	3.4	4.1	-2.4	5.2	2.2	-7.0	3.8	7.2	11.0	9.2	4.7	4.1	4.6	8.0	4.3	0.0
New Brunswick	1.0	-3.7	3.0	2.8	-1.8	4.9	0.7	-4.4	2.9	8.0	10.4	9.1	2.9	2.8	3.3	2.7	5.6	1.8
Québec	2.7	-6.3	5.3	4.4	-4.0	7.0	1.7	-6.8	6.0	5.1	10.1	7.2	48.1	39.6	37.9	5.1	7.9	-0.3
Ontario	1.9	-6.2	5.1	4.1	-3.7	6.8	2.9	-6.0	5.9	5.6	9.6	7.3	69.0	74.6	76.6	6.2	4.2	-1.7
Manitoba	1.0	-3.6	3.0	1.9	-2.5	3.9	0.9	-4.2	4.6	5.3	8.4	6.7	7.0	5.8	6.0	0.1	-0.2	0.1
Saskatchewan	-0.8	-6.2	4.7	0.6	-8.0	7.2	1.6	-6.1	4.2	5.4	9.3	7.5	2.4	2.5	3.6	-0.5	-2.0	-2.6
Alberta	-0.6	-7.9	5.7	1.1	-12.1	9.1	0.5	-8.7	6.3	6.9	12.2	9.6	27.3	23.4	25.6	-2.4	-1.4	-2.3
British Columbia	2.8	-5.6	5.4	5.3	-3.1	7.4	2.6	-7.1	6.8	4.7	9.0	6.6	45.1	35.0	35.4	-1.5	3.3	-2.5

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

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