Provincial Economic Forecast

Not Out of the Woods Yet

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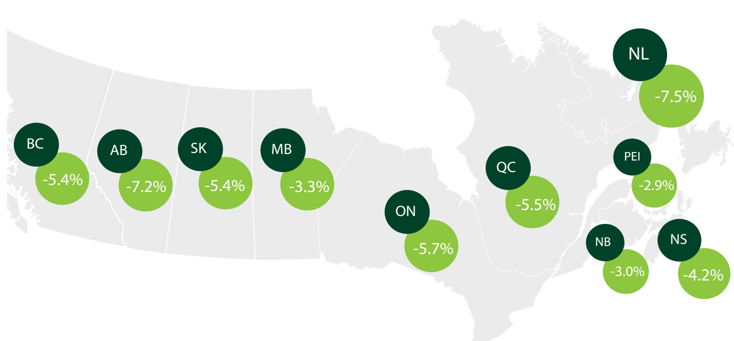
- Unprecedented contractions in economic activity were recorded from coast to coast in the first half of 2020. With the provinces now well along in their re-openings, the long journey towards recovery has begun, paving the way for solid rebounds in 2021.
- In general, smaller, less densely populated provinces with milder COVID-19 curves (i.e., NB, Man, and Sask.) appear to be further ahead in the recovery process. Within the large provinces, Quebec has been the standout, having posted the swiftest recovery following its outsized contraction in March/April.
- While recoveries are expected to continue through 2021, growth already appears to be losing steam across the country, as recent early-stage rebounds give way to a more prolonged 'recuperation' phase. As such, still-elevated provincial unemployment rates are expected to grind lower only slowly from current levels. The recent uptick in COVID-19 cases in some regions also serves as a reminder of the ongoing drag exerted by the pandemic until a vaccine is made available.
- Provincial deficits are expected to total a combined $100 billion (4.5% of GDP) this fiscal year. At the top end of the list, Alberta set to record a deficit-to-GDP ratio approaching 8.1% this fiscal year, followed by N&L (7.3%) and Ontario (4.6%). These outsized shortfalls will send the combined net debt-to-GDP ratio to around 38%, the highest level since the mid-80s.
- Provincial governments are rolling out large spending programs that should help backstop their nascent economic recoveries. For example, double-digit program spending growth for this fiscal year is now projected in Ontario and Quebec, marking a major upgrade on previous expectations. Elsewhere, Alberta, Saskatchewan, and B.C. have hefty capital spending packages set aside for this fiscal year.
- Housing markets across the country have made headlines for their impressive resilience during the outbreak. Indeed, both home sales and prices are now rising at double-digit annual rates. Moving forward, this outsized rate of activity should give way to a more "normal" pace as pent-up demand is diminished, though tight conditions should put a floor on prices in 2021.

Provincial Real GDP Growth Forecast (2020)



Source: TD Economics. Forecast as of September 2020.

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

British Columbia

B.C.'s economy is expected to suffer a slightly less severe hit than the nation as a whole. The province faced a mild COVID-19 curve and lesser restrictions on activity at the onset of the pandemic. However, since our June forecast, the pace of businesses reopenings and the recovery in consumer mobility have evolved more slowly than we had expected. A recent surge in daily caseloads has also prompted the government to impose new restrictions on bar hours and a ban on some entertainment venues.

Consumer-oriented data have broadly corroborated the picture of a more lagged recovery in houehold spending relative to the nation. Similarly, B.C.'s labour market improvement since April has been somewhat more decorous compared to Quebec and the smaller provinces (Chart 1). Digging into the details of the jobs data also reveals some red flags – namely a lackluster recovery in private-sector and full-time jobs.

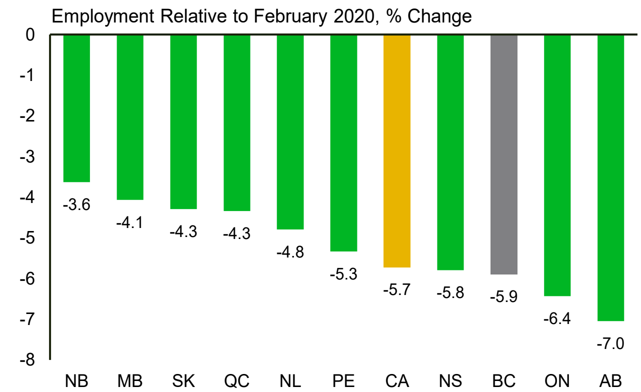
In contrast, business investment appears to be holding up surprisingly well this year. B.C.'s revised capital expenditure intentions point to a modest 1.4% cut in non-residential outlays in 2020 (Chart 2). Continued progress on large-scale projects, namely the LNG Canada terminal and the associated pipeline, should partially counter the elongated recovery expected in some service industries.

Like the rest of Canada, B.C.'s housing markets have also witnessed a sharp, V-shaped snap-back since April. An expected 6% increase in home sales and 9.5% increase in average prices this year should provide a significant lift to the province's outsized real estate sector, not to mention other housing-oriented industries.

Elsewhere in the economy, sawmill shutdowns and pandemic-related restrictions on construction activity across North America have weighed heavily on B.C.'s already-weakened forestry sector. The surge in U.S. and Canadian housing activity over the summer have lifted lumber prices, providing a temporary source of relief to incomes in the industry.

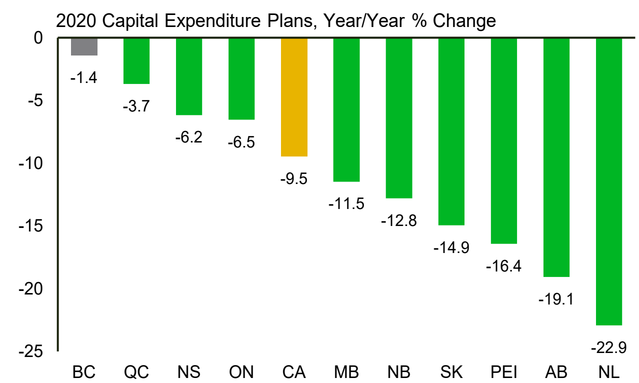
The Province's recently-released Q1 fiscal update revealed a hefty $12.8 billion (around 4.5% of GDP) deficit for the current fiscal year, as the government has taken action to cushion the impact of the pandemic. Still, B.C.'s net debt to GDP ratio is expected to remain among the lowest in the country (20.8%). The Province has thus far also maintained its coveted-AAA rating.

Chart 1: B.C. Still Has a Sizeable Employment Gap to Close



Source: Statistics Canada, TD Economics.

Chart 2: B.C.'s Capital Expenditures the Least Hit this Year



Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-5.4	4.4	3.2
Nominal GDP	-3.8	6.0	5.2
Employment	-6.5	5.9	2.3
Unemployment Rate (%)	9.4	7.0	5.7
Housing Starts (000's)	38.7	36.1	33.8
Existing Home Prices	9.5	-3.8	0.1
Home Sales	6.0	1.2	0.3

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

Alberta

The drag exerted by this spring's pandemic-driven restrictions and severe weakness in the energy sector is poised to leave Alberta with the second sharpest contraction among the provinces in 2020. An economic recovery has begun to take root, although a return to pre-pandemic levels of activity is not anticipated before 2023.

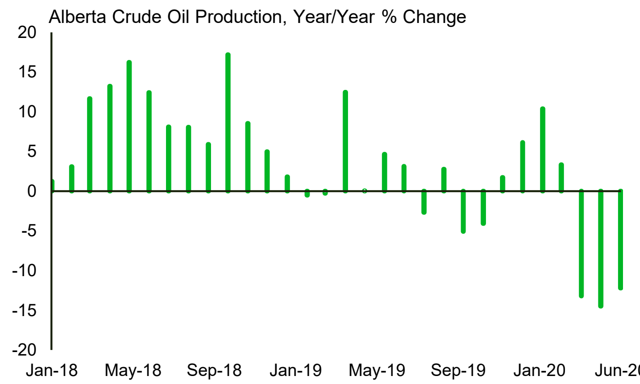
COVID-19 and the plunge in crude oil prices earlier this year have sent crude production levels down more than 10% from their year-earlier levels as of June (Chart 1). Statistics Canada's revised capital expenditures for 2020 (-19.1%) and depressed oil rig counts are also indicative of the difficult investment environment within the sector (Chart 2). Although WTI crude oil prices have gained some traction since April, another moderate leg down in recent weeks speaks to the uncertainty that persists around the oil demand outlook. Our baseline assumption is that prices grind up to US$45-US$50 by next year supported by a gradual pickup in world oil consumption.

Pre-existing labour market slack has been exacerbated by this year's recession. By August, Alberta had only recovered about 55% of the jobs lost following the end of lockdowns in April. After peaking at 15% in the second quarter, the province's unemployment rate is expected to drift down into single-digit territory by the second half of 2021.

Excess supply and this year's hit to incomes are weighing on housing markets. Bucking the national trend, Alberta is expected to record the steepest drop in home sales and starts this year. One area that has shown surprising strength lately is consumer spending. Alberta's low initial COVID-19 case count allowed the government to reopen its economy slightly earlier than its large provincial peers, which was reflected in a more pronounced pickup in household mobility. That said, with reopening only delivering one-time benefits, some tapering off in the upward momentum in consumer spending is inevitable, especially amid a still-challenging labour market picture.

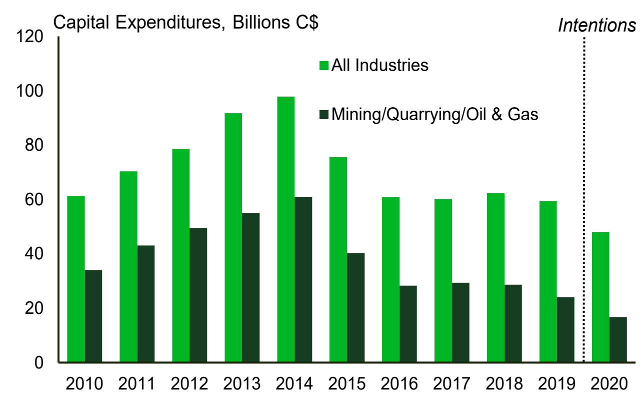
The Alberta government's pandemic response, which has included significant new operating and capital outlays and a cut to corporate tax rates, was among the largest across the provinces. This should provide support to the province's recovery prospects. However, this will come with a hefty bill that will push Alberta's net debt-to GDP ratio to above 20%. While this burden remains relatively low, it is a major departure from the province's positive net asset position five years ago.

Chart 1: Oil Production Has Taken A Hit



Source: Statistics Canada, TD Economics.

Chart 2: Another Oil Shock, Another Blow to Alberta's Capital Expenditures



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-7.2	3.8	3.4
Nominal GDP	-12.7	7.1	6.0
Employment	-7.1	5.0	3.4
Unemployment Rate (%)	11.5	10.0	7.6
Housing Starts (000's)	22.3	25.5	29.8
Existing Home Prices	2.2	-7.4	0.5
Home Sales	-8.7	-10.3	0.1

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

Saskatchewan

The province's outlook for this year has improved relative to our latest view in June. This is partly a function of a milder COVID-19 outbreak and a relatively early reopening, which in turn have fed through to outperformances in the activity and labour market data. Saskatchewan's employment is now 4.3% below pre-pandemic levels (compared to 5.7% nationally). Its unemployment rate, at 7.9%, is the lowest in Canada (Chart 1).

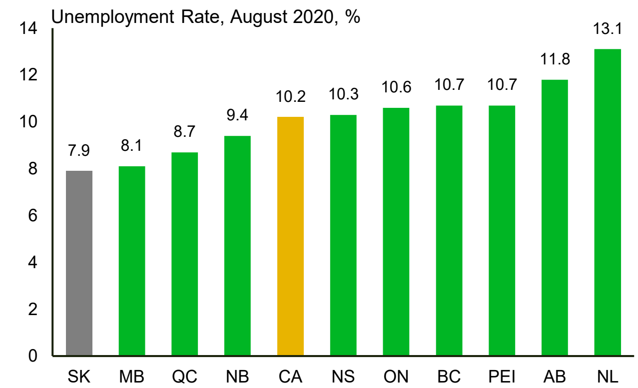
While non-residential investment is headed for a sharp decline, housing markets have emerged as a notable bright spot this year. Indeed, housing starts in Saskatchewan are up 49% y/y so far in 2020, the most in the country. A similar outperformance was recorded in existing home sales (+12% against 1.3% nationally). That said, we expect to see a moderation in housing markets as pent up demand is sated.

Saskatchewan's exports are down a comparatively modest 2.1% y/y so far in 2020 (Chart 2). A surge in the agriculture and food exports have offset weakness in energy exports. More broadly, the agricultural sector has also shown resilience during the pandemic. Statistics Canada's latest crop production estimates point to a modest overall decline in crop production this year (-2.2%). However, as of Q2, farm cash receipts were up at a double-digit pace relative to last year.

Hit hard by this year's global pandemic, the crude oil industry continues to struggle. Not unlike its neighbour to the west, oil production in the province has slumped 14% below its year-earlier levels as of June. Capital expenditures and drilling rig counts have also taken a steep hit. Dampened investment will likely weigh on growth in future oil production, tempering the pace of the recovery. Elsewhere in the mining sector, potash production is up modestly so far this year, but subdued prices have left the value of total sales down significantly.

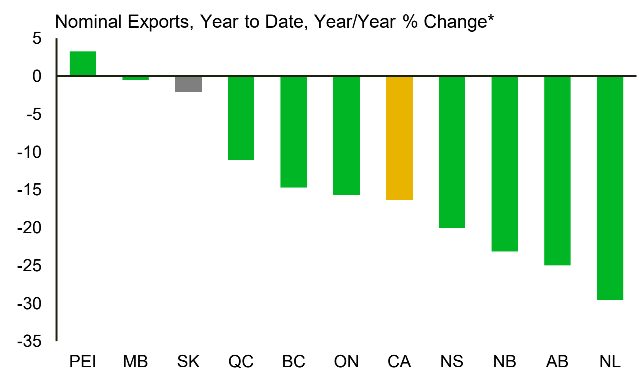
Saskatchewan's pandemic-focused budget confirmed an extra $2 billion in capital spending initiatives in addition to new outlays in program spending. The pandemic has disrupted Saskatchewan's laudable progress in balancing its books following the 2014 oil price shock. However, the Province is still expected to exit the crisis with the lowest net debt to GDP ratio in the country (19.7% in 2020).

Chart 1: Saskatchewan Currently Has the Lowest Unemployment Rate in the Country



Source: Statistics Canada, TD Economics.

Chart 2: Agriculture and Food Products Prevented Saskatchewan's Exports from Slipping Further



*January-July Domestic Exports.
Source: Statistics Canada, TD Economics.

Saskatchewan Economic Forecasts [Annual average % change, unless otherwise noted]	2020	2021	2022
Real GDP	-5.4	3.6	3.0
Nominal GDP	-8.2	6.1	5.2
Employment	-4.7	3.8	2.0
Unemployment Rate (%)	8.6	7.3	6.1
Housing Starts (000's)	3.6	3.6	4.2
Existing Home Prices	2.0	-5.5	0.6
Home Sales	13.2	-12.1	0.6

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

Manitoba

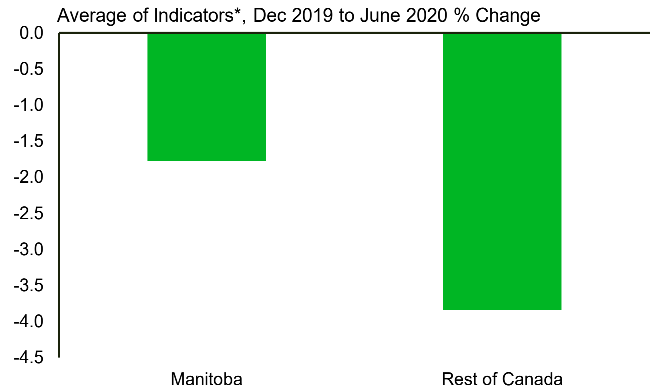
Manitoba's economy has been an outperformer in the first half of 2020, as a contained COVID-19 curve first limited the scope of industry shutdowns, then facilitated the execution of a swift re-opening plan. This outperformance is evident in several indicators, including retail and wholesale spending (Chart 1). Home sales also experienced a shallower decline during late March/April and have recovered quickly. As a result, housing markets have rapidly tightened and home prices are accelerating, climbing 9% y/y in August. Manufacturing sales have also outperformed, lifted by food and wood products. Elsewhere, employment was 4.1% lower in August than February, compared to a 5.7% drop for Canada overall. Given these developments, we expect Manitoba's economy to contract somewhat less than the national average this year. The province is currently in Phase 4 of its re-opening plan, which has allowed nearly all remaining industries (e.g. casinos, movie theatres) to resume activities.

However, in a stark example of how quickly things can change during the pandemic, new cases have risen considerably through the third quarter. A chunk of this outbreak has occurred outside of Winnipeg – the province's economic centre. However, high frequency data points to a slowdown in household spending in August - the month with the steepest rise in new cases - before it recorded some improvement so far in September (Chart 2).

In their June fiscal update, the provincial government gave a fleshed-out account of spending measures meant to cushion the blow from the pandemic. Including the plan for additional infrastructure outlays announced in May, the government has announced spending commitments of about $2.1 billion (or about 3% of GDP), among the largest provincial support packages in GDP terms. This will help buttress second half growth, with benefits expected to manifest next year as well. The government expects net-debt-to GDP to hit 40.7% this fiscal year, which is on the higher end of provincial burdens.

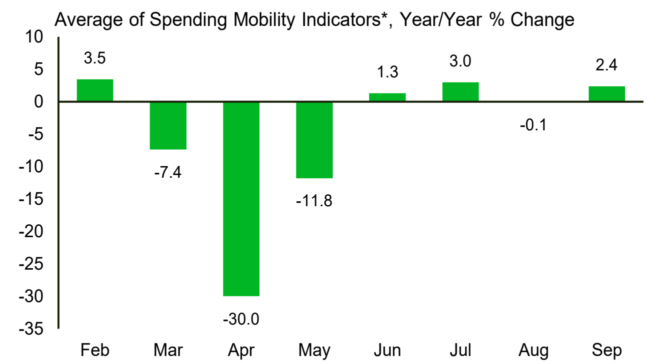
Interprovincial exports, which are especially important to Manitoba, should see a better second half as the rest of the country continues to recover. Improved global growth prospects should also bolster international shipments. Economic activity will be further boosted this year by on-going construction of a new, 94,000 square foot food production facility.

Chart 1: Manitoba's Economy Likely Outperformed Canada's in the First Half



*Indicators measured are manufacturing sales, wholesale and retail trade.
Source: Statistics Canada, TD Economics.

Chart 2: High Frequency Data Points to an August Dip in Household Spending in Manitoba



*Mobility indicators considered are retail/recreation and grocery/pharmacy spending trends relative to baseline. Data are monthly average of weekly y/y changes.
Source: Google Mobility Report, TD Economics. Last Observation September 11, 2020.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-3.3	3.0	2.2
Nominal GDP	-1.8	3.9	4.1
Employment	-3.3	3.7	1.7
Unemployment Rate (%)	8.0	6.6	5.5
Housing Starts (000's)	6.3	6.3	5.4
Existing Home Prices	3.3	-2.9	1.5
Home Sales	10.1	-2.1	0.1

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

Ontario

After contracting in line with the nation in first quarter, Ontario appeared to suffer a larger setback in the second quarter, with manufacturing sales, wholesale spending, retail trade and employment all posting more severe contractions in the province. Part of this gap can be explained by Ontario's go-slow approach to re-opening its economy, as new COVID-19 cases remained elevated through most of June. In addition, closures of North American auto plants and dealerships in the early stages of the pandemic disproportionately impacted Ontario and caused automotive exports to retrench by 91% in April.

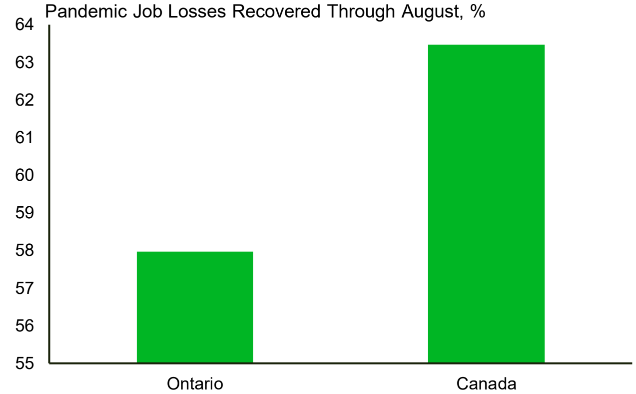
The tide has begun to turn, however, as the provincial government's lagged re-opening schedule has pushed some activity into the third quarter. In addition, auto production resumed in May and has grown rapidly since then. All told, we expect very strong third quarter growth, as pent-up demand accumulated in the second quarter is unleashed. As of August, Ontario had recovered 58% of jobs lost during March and April, compared to over 60% for Canada overall (Chart 1).

At the same time, with these gains largely one-time in nature, the growth burst should give way to a more subdued pace starting in the fourth quarter. Another factor that could slow near-term momentum is a second wave. Indeed, rising infections in recent weeks caused the government to pause its reopening plans. And, further increases could force additional pauses or localized closures.

The expansion in the coming quarters is expected to be lifted by government stimulus. Based on reported capital spending intentions, government investment is expected to jump by a robust 8% this year (Chart 2). In addition, in its July fiscal update, the government pledged more funds to municipalities, additional healthcare spending, and increased temporary pandemic pay.

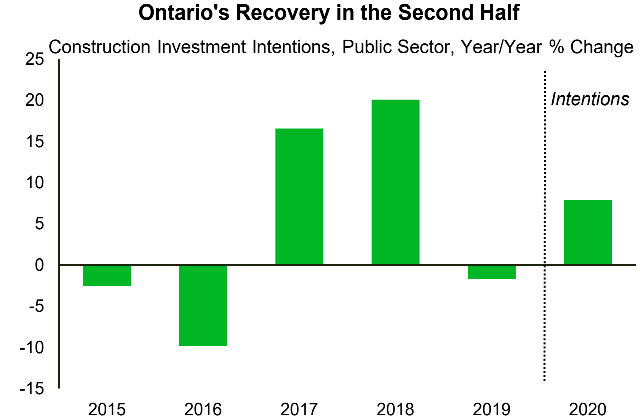
Housing markets in Ontario have come roaring back from their April depths, when buyers and sellers moved to the sidelines at the height of the pandemic. With supply constrained, annual price growth is back in the double-digits. Moving forward, sales and price growth is likely to moderate rapidly after a record-breaking third quarter. However, gradually healing job markets, supportive demographics and low rates will likely sustain healthy sales levels.

Chart 1: Ontario's Jobs Market is Lagging Behind Canada's



Source: Statistics Canada, TD Economics.

Chart 2: Government Spending Should Support Ontario's Recovery in the Second Half



Source: Statistics Canada, TD Economics.

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-5.7	4.3	3.4
Nominal GDP	-4.7	5.9	5.4
Employment	-5.0	5.6	2.4
Unemployment Rate (%)	9.6	7.8	6.3
Housing Starts (000's)	83.7	81.7	80.9
Existing Home Prices	15.4	-0.4	0.8
Home Sales	2.2	1.3	1.2

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

Québec

During the early stages of the pandemic, Quebec's economy contracted by more than Canada's, as the province temporarily shutdown 40% of its economy (by our reckoning) in late March and April. Prompted by a relatively severe COVID-19 outbreak, this was by far the most aggressive response in the country. Accordingly, GDP dropped by 12.2%, on average, during these two months – steeper than the 9.6% decline experienced across Canada.

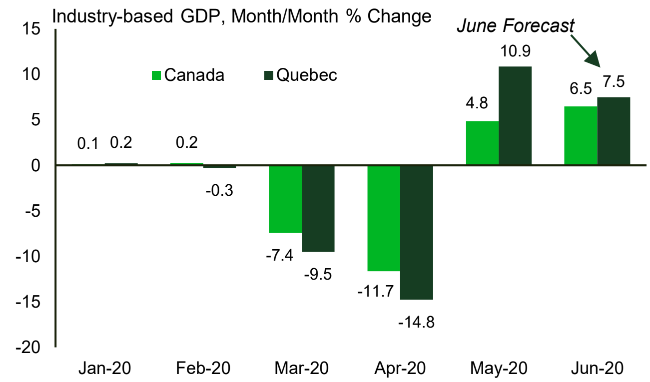
However, since the economy was reopened in April, it has also recorded a swifter snap back than other regions (Chart 1). Indeed, GDP posted near-11% monthly growth in May, with another large output gain likely in June. And, TD's own aggregated spending data indicates that the V-shaped rebound in household spending growth has been maintained through the third quarter.

Despite this upward momentum, the economy still a long road ahead to recoup pandemic-related losses. Several key service-oriented industries, such as accommodation and food services and transportation, continue to record double-digit employment gaps relative to their levels in February. The pace of recovery is almost certain to downshift dramatically by the fourth quarter, as the recent V-shaped rebound gives way to a more drawn out 'recuperation' phase. The recent uptick in coronavirus cases highlights the risk of a second wave that could further drag on recovery in the months ahead.

One near-term upside risk to growth is the fiscal side. In its June fiscal update, the provincial government forecast robust program spending growth of 11.4% in FY 2020/21, compared to 5.1% in the budget (Chart 2). This is a considerable upgrade relative to our assumption in our prior forecast. And, because the fiscal year stretches into 2021, these expenditures will likely boost growth next year as well.

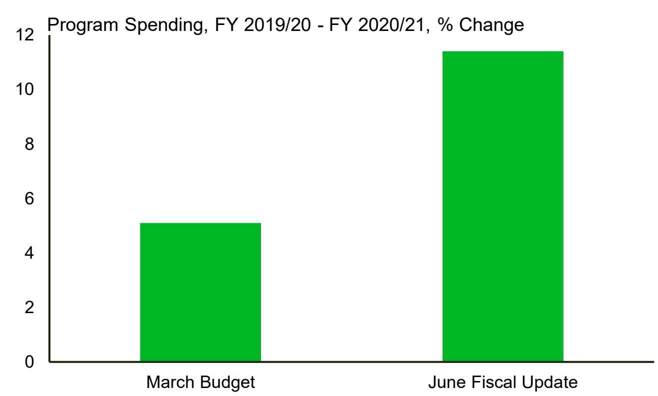
In some good news, the Trump administration announced that it will drop tariffs on imports of unwrought aluminum products. Imposed on August 16th, these tariffs were likely disproportionately impacting Quebec, as most of Canada's aluminum production takes place in the province. And, history had shown these exports to be sensitive to tariffs. By the same token, their removal will probably not spark outsized export growth, as the US government has threatened to reimpose tariffs if Canadian imports exceed specific thresholds.

Chart 1: After Deep Initial Hit, Quebec's Economy Has Outperformed



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

Chart 2: Upgraded Government Spending Plans Should Boost Second Half Growth



Source: Quebec Government, TD Economics.

Québec Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-5.5	4.5	2.5
Nominal GDP	-4.5	6.2	4.4
Employment	-4.7	5.4	1.5
Unemployment Rate (%)	9.2	7.0	6.1
Housing Starts (000's)	59.3	46.6	43.9
Existing Home Prices	14.7	-1.8	1.1
Home Sales	7.6	-1.6	0.7

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

New Brunswick

With an anticipated 3% real GDP contraction in 2020, New Brunswick's economy is expected to fare better than many of its provincial peers. This outperformance can primarily be chalked up to a mild COVID-19 curve, which limited the extent of shutdowns this spring and allowed businesses to fully restart more quickly. Household mobility and job markets have responded in kind, both helping to drive a quicker rebound in consumer spending and a rebound in hiring. As of August, employment in the province was running 3.6% below pre-pandemic levels, marking the smallest employment 'gap' among Canada's regions (Chart 1).

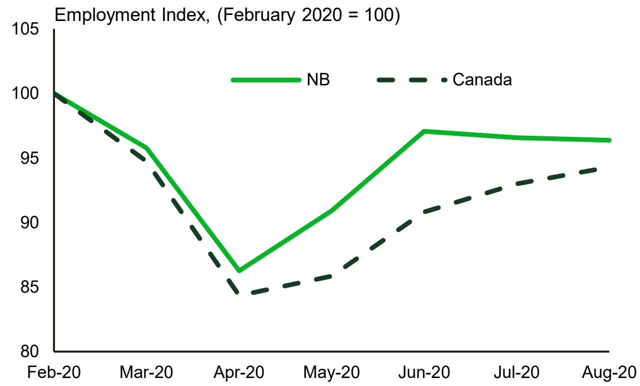
Aided by strong past population growth, New Brunswick's housing markets have been on fire in the past two years (Chart 2). So far this year, housing starts are up an impressive 28.5% y/y. Meanwhile, existing home sales and average home prices are expected to record a further gain this year. A modest pullback in housing activity is anticipated in 2021, as the lagged impact of this year's deceleration in population growth feeds through to housing demand.

New Brunswick's manufacturing sector has faced some significant setbacks. Heavy exposure to petroleum products production in the province is weighing on the value of exports and manufacturing sales, with both on track to shrink sharply in 2020. The closure of the Belledune lead smelter late last year is another area that is also acting as a near-term drag on factory activity.

Non-residential capital expenditures are another weak spot. Recently-released capital and repair expenditures intentions revealed that businesses in the province plan to slash capital outlays by 13% this year, a moderately steeper reduction than in Canada (-9.5%). A 55% drop in the value of non-residential construction permits also points to softness in construction activity in the months ahead, tempering the province's recovery prospects.

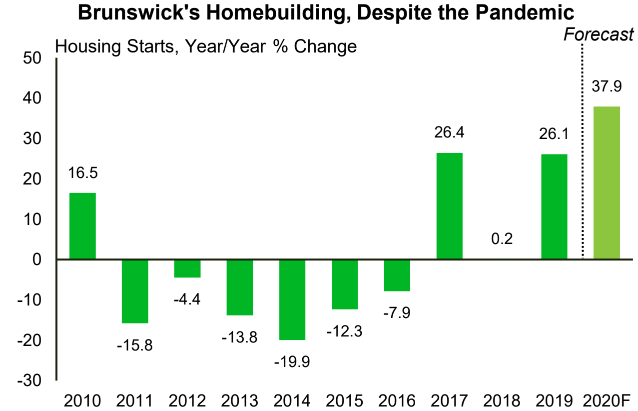
New Brunswick's less severe contraction and lower exposure to the impacts of COVID-19 have helped to prevent the government's budget balance from deteriorating to the same extent seen in other provinces. Its projected $300 million deficit equates to a shortfall of 0.8% of GDP, by far the least red ink among the provinces.

Chart 1: Although Slowing, New Brunswick's Employment Has Seen a Lesser Hit than Canada's



Source: Statistics Canada, TD Economics.

Chart 2: Another Strong Year Expected for New Brunswick's Homebuilding, Despite the Pandemic



Source: CMHC, TD Economics.

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

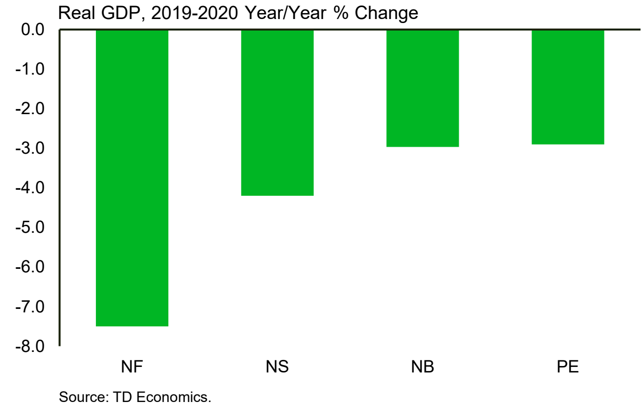
	2020	2021	2022
Real GDP	-3.0	2.6	1.8
Nominal GDP	-2.0	4.2	3.7
Employment	-2.7	3.0	0.9
Unemployment Rate (%)	9.5	8.4	8.2
Housing Starts (000's)	4.0	3.7	2.6
Existing Home Prices	8.8	-1.9	1.8
Home Sales	3.0	-5.0	1.2

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

Nova Scotia

Nova Scotia is likely to record one of the weakest economic performances in the Atlantic Region this year (Chart 1), as a relatively high per capita COVID-19 case count stymied activity in April and May, and North American auto industry shutdowns weighed heavily on tire exports. In addition, the Northern Pulp mill was closed in January, curbing shipments of wood products. However, the province was quickly able to bend its COVID-19 curve (and keep it bent), allowing the reopening of most temporarily shuttered industries on June 5th. Consequently, economic activity perked up significantly during the month, with double digit monthly gains in wholesale trade, retail spending, and home sales as well as a solid gain in employment. So far in the third quarter, high frequency indicators point to slower, but positive momentum being sustained, notwithstanding the potential drag on lobster exports from new COVID-19 testing measures imposed by China in June.

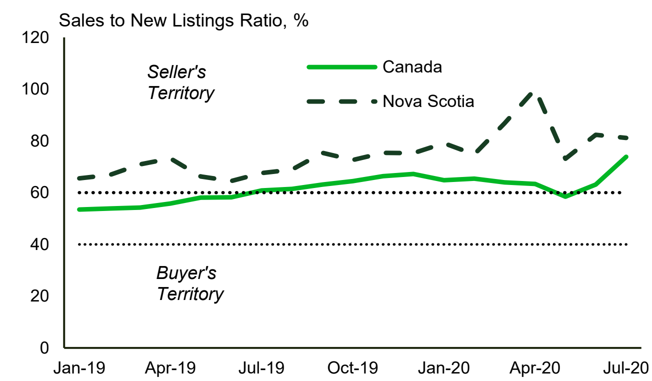
Chart 1: Nova Scotia to Record One of the Weakest Growth Performances in the Atlantic Region This Year



Source: TD Economics.

Since the initial round of re-openings on June 5th, daycares and some provincial museums have reopened, while gathering limits have increased. However, perhaps the most notable change is the establishment of an "Atlantic bubble", where residents of the Atlantic provinces can visit within the region without having to self-isolate. This should add some modest support to Nova Scotia's battered tourism sector.

Chart 2: Nova Scotia Has One of the Tightest Housing Markets in the Country



Source: CREA, TD Economics.

The provincial government expects a deficit of about $850 million this fiscal year, while net debt-to-GDP climbs to 38.7%. At 2% of GDP, the shortfall would be the highest since FY 1999/00 and comes largely on the back of COVID-19-related support spending. In fact, government spending is expected to come in stronger than we anticipated in our June forecast, providing an additional tailwind to the outlook for the second half of this year and into 2021.

Robust population growth was a major factor behind Nova Scotia's improved economic performance in recent years. Moving forward, we expect the pandemic to result in slower population gains. However, we've upgraded our view for population growth relative to our prior forecast, amid evidence that the initial hit wasn't as bad as feared. This points to more support to consumption and job markets than previously anticipated. It also suggests less of a hit to housing markets, which are among the tightest in the country (Chart 2). While home prices are expected to ease slightly in 2021, it would follow a hefty gain this year.

Nova Scotia Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-4.2	3.7	1.8
Nominal GDP	-3.2	5.4	3.7
Employment	-5.5	3.5	1.2
Unemployment Rate (%)	10.3	8.8	8.3
Housing Starts (000's)	4.7	4.8	4.0
Existing Home Prices	10.6	-1.5	1.7
Home Sales	-3.0	-6.3	1.3

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

Prince Edward Island

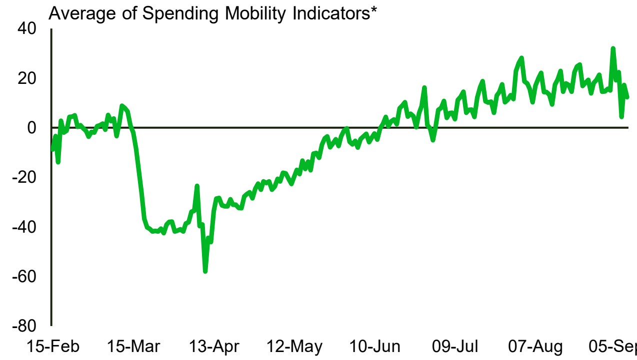
A few factors explain what looks to be a comparatively shallow first-half contraction in PEI's economy compared to the rest of the country. A relative lack of COVID-19 cases meant that fewer industries had to temporarily close, and that households have had some confidence to go out and spend. As a result, both employment and retail spending have experienced lesser declines. In addition, two industries relatively hard hit by the pandemic – auto and energy – are not significant sources of output for PEI. As a result, manufacturers, wholesalers and exporters have avoided these outsized drags. The province has kept new COVID-19 cases contained, and high frequency data suggests that activity continues to hold firm (Chart 1).

Tourism has been particularly hard hit by the pandemic. However, the implementation of an Atlantic Bubble in July – where travel is permitted within the region – should help support this troubled sector. Notably, spending from the other Atlantic provinces makes up a large share of total Canadian tourism expenditures in PEI. And, since the pandemic has decimated overseas visits and the U.S. border is currently closed to vacationers, tourists from other parts of Canada have become more important (Chart 2).

In their latest budget, the PEI government was expecting deficits and net debt to climb to 2.4% and 35.0% of GDP, respectively, this fiscal year. Both are well short of historical peaks, which if achieved, would leave PEI in a much better fiscal position compared to most other provinces. The government is also projecting strong 11% program spending growth this fiscal year, which should provide support to the economy both this year and next.

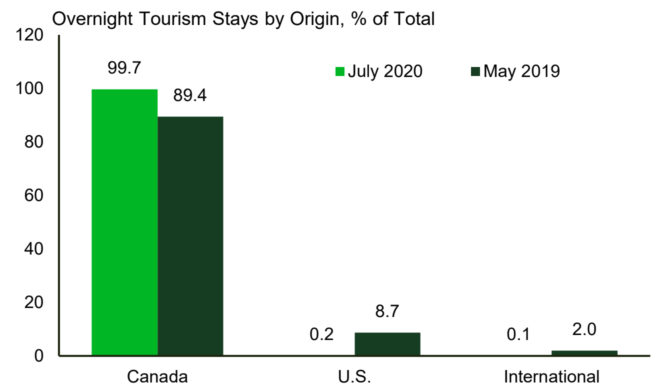
Underpinned by immigration, PEI has recorded the fastest population growth in Canada since 2015. And, there is some evidence of improved retention of these newcomers over this period. We expect the pandemic to weigh on population growth into PEI and indeed, immigration to the Island was down by an average of 65% year-on-year from March through May. However, consistent with the sharp turnaround in June, population growth looks likely to slow by less than previously anticipated, implying greater support to growth moving forward.

Chart 1: Retail Activity Holding Firm Through the Third Quarter in PEI



*Mobility indicators considered are retail/recreation and grocery/pharmacy spending trends relative to baseline. Data presented as 3 week moving average.
Source: Google Mobility Report, TD Economics. Last observation September 11, 2020.

Chart 2: Due to the Pandemic, a Larger Share of Tourists to PEI are from Canada This Year



Source: TIAPEI, TD Economics.

P.E.I. Economic Forecasts [Annual average % change, unless otherwise noted]	2020	2021	2022
Real GDP	-2.9	2.6	1.9
Nominal GDP	-1.9	4.2	3.8
Employment	-2.4	3.1	1.4
Unemployment Rate (%)	10.7	9.5	8.7
Housing Starts (000's)	1.3	1.8	1.2
Existing Home Prices	14.7	-2.5	1.0
Home Sales	-2.4	-5.1	1.1

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

Newfoundland & Labrador

Sideswiped in part by weakness in its key oil industry, Newfoundland and Labrador's economy is expected to place at the bottom of the provincial leaderboard this year. Looking ahead, only a modest recovery is anticipated.

While oil output has been growing at a healthy clip this year, the industry has faced a number of setbacks. At the outset of the pandemic, drilling was paused and layoffs were announced at the Hibernia oilfield. More recently, it was revealed that the temporarily-halted West White Rose extension project had been placed under review. The previously-budding area of exploration activity in the Flemish basin has been the target of cutbacks to capital and operating spending. Meanwhile, a final investment decision on the large-scale Bay Du Nord project has been deferred.

The oil shock also reverberated across the entire supply chain, with production at the province's North Atlantic refinery (responsible for 115K-130K bpd of petroleum products) disrupted in the early stages of the pandemic. As a result, Newfoundland & Labrador's manufacturing sales are down more than 40% y/y so far in 2020 (Chart 1).

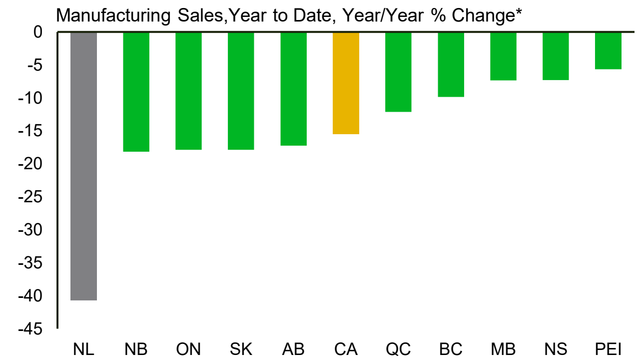
The province's housing market continues to feel the impact of worsening demographics and a glut in supply. Homebuilding has displayed some resilience in recent months, pulling back only slightly, but falling sales and oversupply has sent prices well into negative territory.

Despite a bounce in hiring since May, employment remains down 8.1% y/y in the January-August period. Worse, the bulk of the post-pandemic recovery has been concentrated in the part-time and self-employment categories.

The province's lesser direct exposure to COVID-19 is the one area that provides some respite. Caseloads are negligible, trending close to zero since May. This has reflected in better-than-average mobility, and in turn, a less severe dent in retail sales (Chart 2).

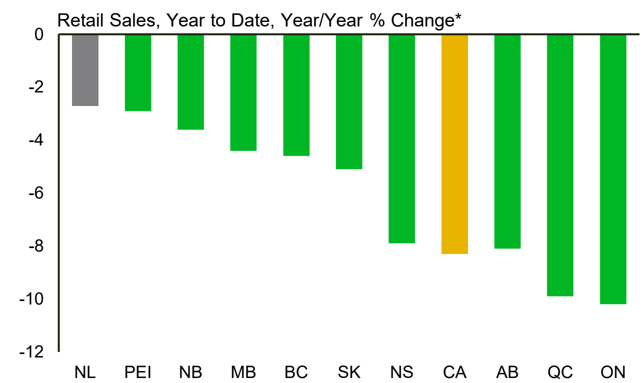
Newfoundland and Labrador's fiscal update revealed a sizeable, $2.1 billion deficit (7.3% of GDP). The drop in Brent prices has sideswiped offshore royalties and income taxes. On the spending side of the ledger, around $460 million was earmarked for COVID-19 contingencies and additional health spending. Persistent structural deficits, compounded by COVID-19, will send Newfoundland and Labrador's net debt to GDP ratio to around 57%. This ratio is by far the highest in the country.

Chart 1: Newfoundland & Labrador Facing a Steep Hit to Manufacturing Sales This Year



*January-July manufacturing sales.
Source: Statistics Canada, TD Economics.

Chart 2: Retail Sales are Faring Comparatively Better



*January-June retail sales.
Source: Statistics Canada, TD Economics.

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

	2020	2021	2022
Real GDP	-7.5	2.6	1.7
Nominal GDP	-13.0	5.9	4.0
Employment	-7.2	2.0	0.7
Unemployment Rate (%)	14.0	13.2	12.7
Housing Starts (000's)	0.9	1.5	1.1
Existing Home Prices	-1.3	-8.0	-1.5
Home Sales	-5.4	-14.3	-2.5

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	**-5.6**	**4.1**	**3.2**	**-5.6**	**5.8**	**5.2**	**-5.3**	**5.3**	**2.2**	**9.7**	**7.9**	**6.5**	**212**	**212**	**207**	**12.1**	**0.0**	**0.8**
Newfoundland & Labrador	-7.5	2.6	1.7	-13.0	5.9	4.0	-7.2	2.0	0.7	14.0	13.2	12.7	0.9	1.5	1.1	-1.3	-8.0	-1.5
Prince Edward Island	-2.9	2.6	1.9	-1.9	4.2	3.8	-2.4	3.1	1.4	10.7	9.5	8.7	1.3	1.8	1.2	14.7	-2.5	1.0
Nova Scotia	-4.2	3.7	1.8	-3.2	5.4	3.7	-5.5	3.5	1.2	10.3	8.8	8.3	4.7	4.8	4.0	10.6	-1.5	1.7
New Brunswick	-3.0	2.6	1.8	-2.0	4.2	3.7	-2.7	3.0	0.9	9.5	8.4	8.2	4.0	3.7	2.6	8.8	-1.9	1.8
Québec	-5.5	4.5	2.5	-4.5	6.2	4.4	-4.7	5.4	1.5	9.2	7.0	6.1	59.3	46.6	43.9	14.7	-1.8	1.1
Ontario	-5.7	4.3	3.4	-4.7	5.9	5.4	-5.0	5.6	2.4	9.6	7.8	6.3	83.7	81.7	80.9	15.4	-0.4	0.8
Manitoba	-3.3	3.0	2.2	-1.8	3.9	4.1	-3.3	3.7	1.7	8.0	6.6	5.5	6.3	6.3	5.4	3.3	-2.9	1.5
Saskatchewan	-5.4	3.6	3.0	-8.2	6.1	5.2	-4.7	3.8	2.0	8.6	7.3	6.1	3.6	3.6	4.2	2.0	-5.5	0.6
Alberta	-7.2	3.8	3.4	-12.7	7.1	6.0	-7.1	5.0	3.4	11.5	10.0	7.6	22.3	25.5	29.8	2.2	-7.4	0.5
British Columbia	-5.4	4.4	3.2	-3.8	6.0	5.2	-6.5	5.9	2.3	9.4	7.0	5.7	38.7	36.1	33.8	9.5	-3.8	0.1

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