TD Economics

Provincial Economic Forecast

Tempered Optimism

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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

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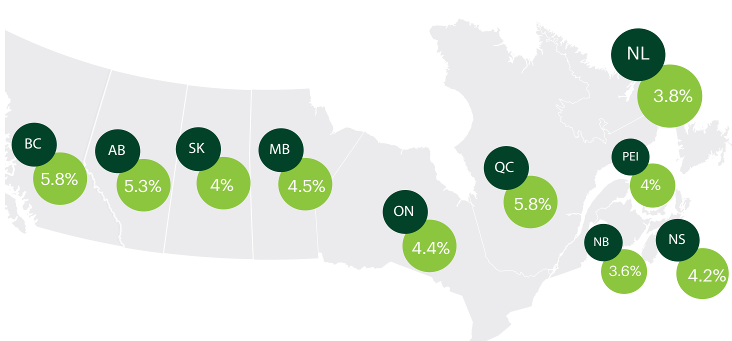
- The rise of the Delta variant alongside a surprisingly soft national second-quarter GDP print combine to motivate downward revisions to our 2021 provincial growth forecasts. These negative adjustments range from 1.7 ppts in Saskatchewan to 0.3 ppts in Newfoundland & Labrador. However, all provincial economies are still on track to post firm recoveries for the year overall.
- Canada's economy contracted slightly in the second quarter, falling short of expectations for a moderate gain, as residential investment and exports weighed on growth. Provincially, weakness in residential spending was broad-based, although Alberta and parts of the Atlantic seem to have held up better. The decline in exports spanned several categories including energy, agricultural products, motor vehicles, and aircrafts. The softness in export volumes was likely more pronounced in Ontario, Manitoba, and the energy-producing provinces.
- The fourth wave brought with it new risks to the outlook. The hope is that Canada's high vaccination rates leave it in a more resilient position to navigate the associated challenges. With lower vaccination rates and the steepest rise in cases and hospitalizations across Canada, Alberta and Saskatchewan are facing the biggest tests.
- Commodity markets have taken a step back from their summer highs. Still, prices and demand remain broadly well supported above pre-pandemic levels. The fly in the ointment is the agriculture sector. Severe drought conditions in the Prairies are expected to hit crop production significantly in the current crop year.
- On balance, labour markets are coming off a strong summer of improvement, supported by vaccination-led reopening plans. B.C., in particular, stands out, with participation rates and employment recovering to pre-pandemic levels. But there are signs that the recovery is losing steam elsewhere, including in smaller provinces that witnessed an earlier reopening. We expect the recovery in labour markets to continue, but the autumn months may prove to be a bumpy ride amid uncertainty over the Delta variant and growing labour shortages.

Provincial Real GDP Growth Forecast (2021)



Source: TD Economics. Forecast as of September 2021.

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

British Columbia

Similar to trends seen nationally, B.C.'s recovery likely hit a snag in the second quarter of this year. Despite this setback, B.C.'s economy remains on track to top the provincial leaderboard this year. Standing at 1.1% above pre-pandemic levels, its strong, broad-based employment rebound is a case in point (Chart 1). A notable mention goes to the professional, scientific, and technical services industry, where employment has soared 15.8% from pre-pandemic levels.

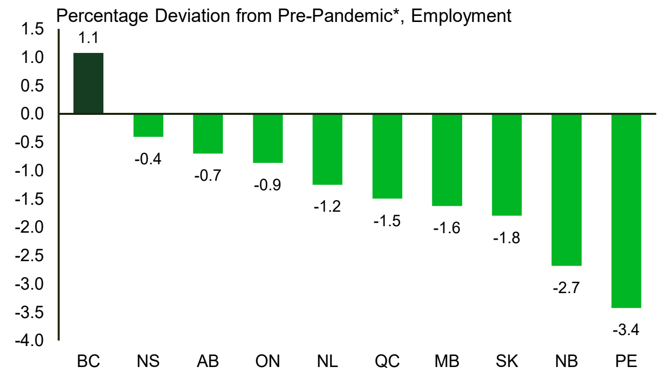
Other facets of B.C.'s labour markets are exhibiting welcome resilience. For instance, by August, year-to-date, year/year growth in hours worked was the highest in the country. In addition, B.C. is the only province with labour force participation rates back above pre-pandemic levels. Alongside the highest job vacancy rates, this setting should propel decent wage gains, providing an added source of support to an already-healthy consumer spending backdrop.

The goods-producing sector is another bright spot. In the construction sector, robust homebuilding trends should provide some offset to lackluster industrial and commercial construction this year. An added boost should come from large-scale private sector projects (e.g. LNG Canada) and the government's ambitious capital spending package. On the latter note, the outlook for government finances has dramatically improved, with the first quarter budget update slashing this year's operating deficit to $4.8 billion (down from an initial budget estimate of $9.7 billion).

B.C.'s outlook is not without its risks. Its manufacturing sales have soared, partly reflecting unprecedented strength in lumber markets. But as expected, lumber prices have corrected on the back of softening demand momentum and a supply response south of the border (Chart 2). This sharp reversal can be a source of drag on export earnings in the coming months. Indeed, some sawmills have temporarily reduced production in response to falling prices. Still, exports across other industries should remain on a solid footing, in tandem with firm global growth expectations.

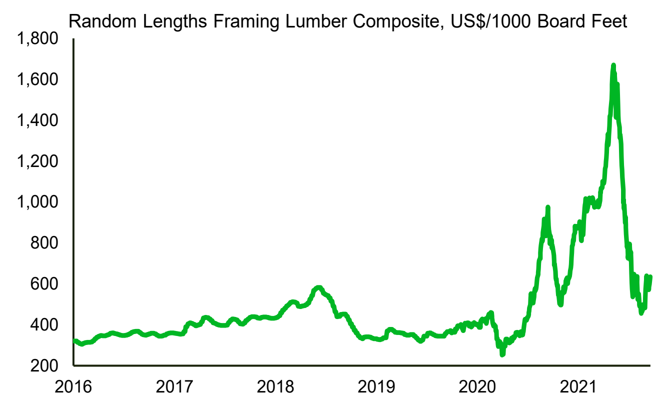
Notably, however, the fourth wave of infections is poised to hinder consumer and business confidence and delay the recovery in the province's large tourism industry. Facing an early Delta outbreak, the B.C. government was previously pressed into introducing limited restrictions within the Interior and Northern Health regions. However, thanks to its high vaccination rates and a vaccine passport system, the province is expected to be relatively well positioned to weather this challenge.

Chart 1: BC Still Far Ahead in its Labour Market Recovery



*August 2021 over February 2020.
Source: Statistics Canada, TD Economics.

Chart 2: Lumber Prices Whipsaw



Source: FIBER, Random Lengths, TD Economics. Last observation: September 20, 2021.

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

Economic Indicators	2021	2022	2023
Real GDP	5.8	4.0	2.0
Nominal GDP	14.2	5.7	4.0
Employment	6.5	3.1	1.3
Unemployment Rate (%)	6.6	5.0	4.5
Housing Starts (000's)	48.4	35.7	34.7
Existing Home Prices	17.6	2.4	0.5
Home Sales	31.2	-11.5	0.6

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

Alberta

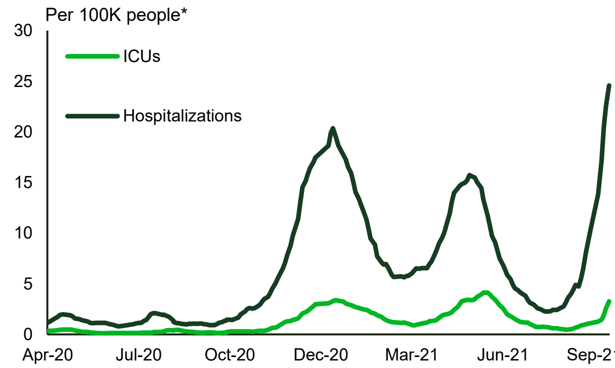
Just as Alberta's recovery was starting to gain traction, the fourth wave has come along and muddied the waters. Caseloads and hospitalizations have risen at a far steeper rate than in the rest of the country, and COVID-19 ICU utilization is at its highest since the pandemic began (Chart 1). Against this backdrop, consumer and business confidence are likely to experience a hit in the fourth quarter. The Alberta government has recently re-enacted public health restrictions in response to the fourth wave. A restrictions exemptions program, akin to other provinces' vaccine passport systems, should lessen some of the hit to the close-contact industries. Encouragingly, the rate of vaccinations has picked up since the announcement.

Absent this setback, a number of factors still offer some respite to Alberta's economy. For instance, Alberta has seen a solid revival in housing activity this year, with home resales expected to rise at the strongest pace in the country. Housing starts are also coming in strong, providing a boost to the construction industry. Alberta's labour market recovery is now also slightly ahead of Canada's, with employment 0.7% below pre-pandemic levels (in contrast to -0.8% in Canada).

Importantly, a strong recovery has been underway in the energy sector. Looking ahead, only a modest downtrend in WTI prices is expected as additional OPEC+ supply comes online. Oil production has already risen more than 7.4% year-to-date, year/year. But more growth appears to be in the cards, with exports expected to rise on robust U.S. demand. And it's not just oil. Natural gas prices have also surged this year – providing an added boost to incomes and government coffers. The fly in the ointment is investment. While rig counts have been on a gradual uptrend, a heroic performance for capital investment in the energy sector appears to be a distant possibility for the time being. Uncertainty surrounding the future of global demand and climate policies will continue to cloud the outlook.

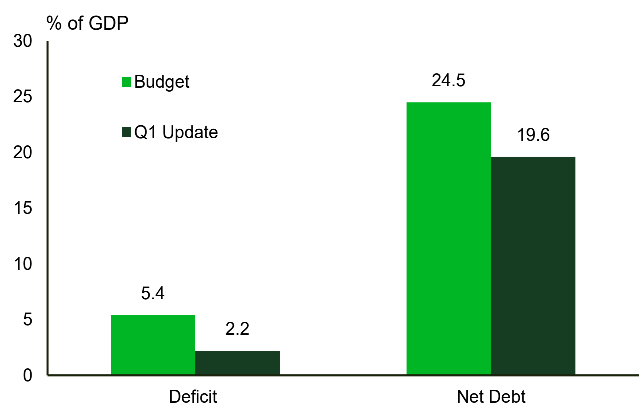
The concerning turn of events on the COVID-19 front has overshadowed recent news of a dramatic improvement in Alberta's government finances (Chart 2). In its first quarter fiscal update, the government revealed that it had slashed this year's projected deficit to $7.8 billion (2.2% of GDP) from the initial budget estimate of $18.2 billion (5.4% of GDP). While this is a welcome development, the Province still faces a challenge of weaning itself off volatile resource revenues in the long run.

Chart 1: COVID-19 Hospitalizations and ICUs at Their Highest in Alberta



*7-day moving average.
Source: Provincial and Territorial MOH, TD Economics. Last observation: September 20, 2021.

Chart 2: Significant Improvement in Alberta's Government Finances



Source: Government of Alberta, TD Economics.

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

Economic Indicators	2021	2022	2023
Real GDP	5.3	4.6	3.8
Nominal GDP	20.0	7.7	5.4
Employment	4.6	2.4	2.2
Unemployment Rate (%)	8.8	7.4	6.4
Housing Starts (000's)	31.3	28.8	28.5
Existing Home Prices	8.8	1.3	1.8
Home Sales	48.8	-5.7	0.9

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

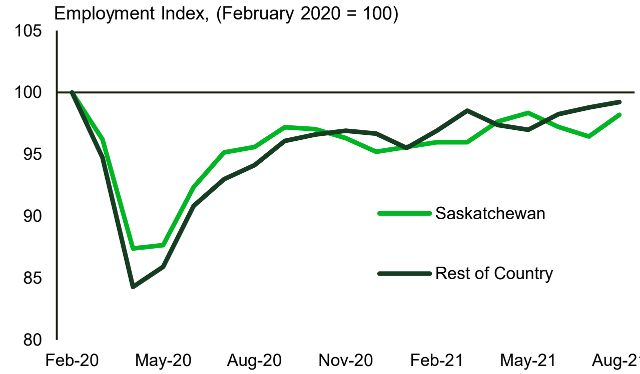
Saskatchewan

While a solid growth outturn is still expected for Saskatchewan, a confluence of factors has prompted us to downgrade its forecast for 2021 and 2022 by more than Canada's. Like its neighbor to the west, Saskatchewan's outlook has recently taken a turn for the worse. Daily per capita caseloads are at their highest level since the start of the pandemic, and first dose vaccination rates are the lowest in the country. As a result, the recoveries in Saskatchewan's employment and consumer spending are more susceptible to downside risks stemming from the fourth wave. To rub salt to the wound, Saskatchewan's labour market performance was already at the lower end of the provincial leaderboard so far this year despite being among the first provinces to reopen this past spring (Chart 1). The good news is that Saskatchewan has recently joined other provinces in announcing a vaccine passport system. This should help improve the backdrop for the beleagured close-contact industries.

Meanwhile, one of Saskatchewan's top performing industries is struggling. Cash receipts and grain prices have displayed notable strength for the better part of the year. But, severe drought conditions are hampering the 2021-22 crop production season, with recent estimates pointing to a 44% reduction in output (Chart 2). With crop production accounting for about 8% of Saskatchewan's GDP, this decline will take a meaningful bite out of growth, though the bulk of the impact will likely be concentrated in 2022.

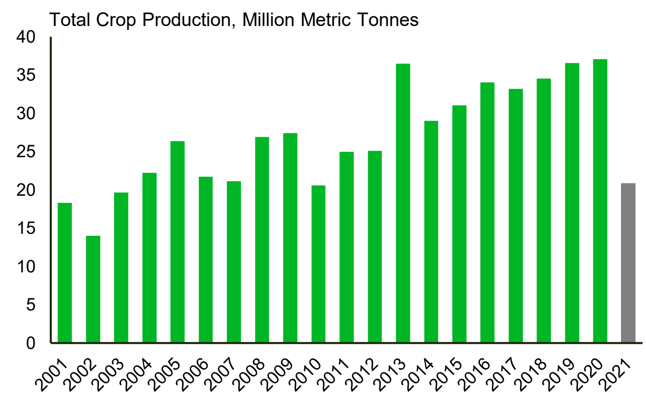
Outside of agriculture, the near-term outlook is brighter as previously lagging commodity industries are now starting to show signs of life. Potash production and prices are up this year and are expected to continue showing resilience on the back of robust global food demand. Longer term, the outlook was boosted by the recent approval of the Jansen mine project. Energy investment remains subdued, but oil production has started rebounding. A solid pricing environment and robust demand south of the border will be supportive for incomes and government coffers. Elsewhere, the Cigar Lake uranium mine has restarted operations after an elongated shutdown, while uranium prices have risen by more than 50% since August on increased investor appetite. Although much uncertainty remains, this higher price environment could potentially prompt production increases and/or restarts at other idled mines in the future.

Chart 1: Saskatchewan's Labour Market Recovery Turned More Choppy Recently



Source: Statistics Canada, TD Economics.

Chart 2: Production Expected to Take a Massive Hit in the 2021/22 Crop Year in Saskatchewan



Source: Statistics Canada, TD Economics.

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

Economic Indicators	2021	2022	2023
Real GDP	4.0	3.4	3.0
Nominal GDP	21.7	5.1	4.6
Employment	2.2	2.3	1.4
Unemployment Rate (%)	7.0	6.2	5.5
Housing Starts (000's)	4.1	4.1	4.0
Existing Home Prices	7.4	2.2	1.4
Home Sales	21.3	-9.4	0.7

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

Manitoba

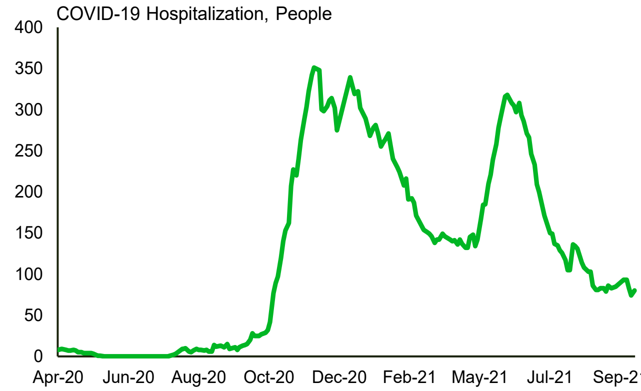
The rapid uptake of vaccines in Manitoba allowed the province to push forward its reopening plan. On August 7th, restrictions were dropped for many sectors, including for retailers, gyms and personal services. Capacity restrictions were also loosened (although not removed) for businesses like casinos, movie theatres and restaurants. Unlike some other provinces however, it's been so far, so good regarding new COVID-19 cases during the fourth wave, as they've remained relatively low despite rising mobility, and the Province's vaccine passport system was expanded on September 3rd. However, because Manitoba is heading into the Fall with stubbornly elevated levels of hospitalizations due to COVID-19 (Chart 1), there is some risk that measures may need to be tightened should cases climb further.

Re-openings have yet to spur sustained job gains, as a nice bounce in employment in July was followed by a flat reading in August. Moreover, data on provincial nominal exports through June indicate that weakness in real (price-adjusted) exports found at the national level in the second quarter was mirrored in Manitoba. Given this development, we've substantially downgraded our 2021 growth forecast.

Despite this downgrade, growth should still be healthy for 2021 overall. Note that manufacturing and retail sales are up 10 and 15%, respectively, year-to-date. In the former category, the Roquette pea-processing plant began production this year, boosting sales of manufactured food products. Elsewhere, employment is up 5% in finance, insurance and real estate while government spending growth was very strong last fiscal year, with knock-on demand impacts likely spilling over into 2021. Unfortunately, 2021 is shaping up to be a tough year for Manitoba's important agricultural industry, with extremely dry conditions threatening crops. Notably, agricultural employment has drifted lower through 2021 (Chart 2).

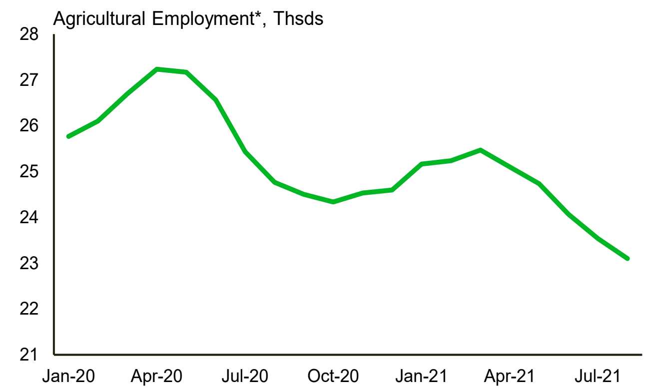
Looking ahead to 2022, we think that output in high-touch industries will continue to recover, offering a solid boost to activity. In addition, we expect Canadian economic growth to be strong, supporting interprovincial trade and manufacturing activity. Offering some offset to these forces, residential construction activity is expected to slow down in 2022. In addition, provincial government program spending is projected to decline in 2022, although is still expected to remain elevated.

Chart 1: Although on the Downswing, Hospitalizations Remain Elevated in Manitoba



Source: Provincial and Territorial MOH, TD Economics. Last observation: September 20, 2021.

Chart 2: Manitoba's Important Agricultural Sector is Weighing Down Overall Growth



*Seasonally adjusted and 3 month moving average.
Source: Statistics Canada, TD Economics. Last observation: August 2021.

Manitoba Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	4.5	3.6	2.8
Nominal GDP	12.0	6.0	4.8
Employment	3.4	2.6	1.2
Unemployment Rate (%)	6.5	5.2	4.7
Housing Starts (000's)	7.8	5.9	5.2
Existing Home Prices	9.2	3.5	1.5
Home Sales	16.2	-7.6	0.7

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

Ontario

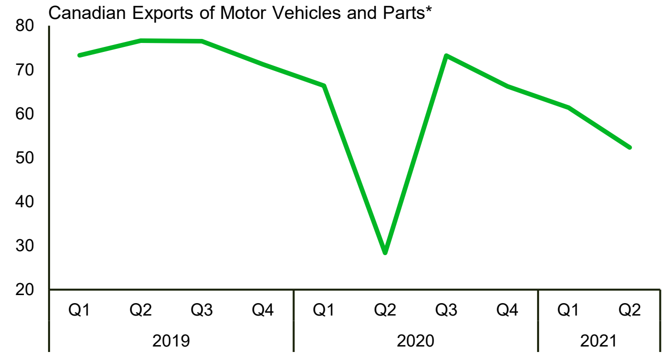
The global semi-conductor shortage has dealt an increasing blow to Ontario's recovery in recent months. Automotive production cratered in the second quarter of this year, manifesting in a near 50% annualized drop in exports of Canadian motor vehicles and parts (Chart 1). This supplied a heavy weight to Ontario's second quarter performance, which we estimate contracted at an even steeper pace than Canada's 1.1% annualized decline. Some good news for the province is that growth seems on track to outpace the nation in the third quarter, helped by a somewhat lagged re-opening. Employment is up 10% annualized in the first two months of the quarter. In addition, auto production climbed in both June and July. Unfortunately, this will not offset April-June weakness, and fourth quarter growth could be impacted by the Delta variant, resulting in a significant downward revision to our 2021 growth forecast.

The finance/insurance/real estate, construction and professional/scientific/technical services (PST) industries likely made impressive contributions to the first half expansion. The former two industries were supported by robust housing demand. Now, with housing activity now coming off the boil, growth in these two sectors should slow in the second half. The PST services industry has benefitted heavily from the push towards digitalization and automation caused by the pandemic. And, this sector should see continued gains next year as well.

After surging in FY 2020/21, Provincial government program spending was projected to make a lesser contribution to growth in the 2021 spring budget. COVID-19 support programs are expected to unwind, and spending outside of these categories is forecast to grow at a slower pace after this fiscal year (Chart 2).

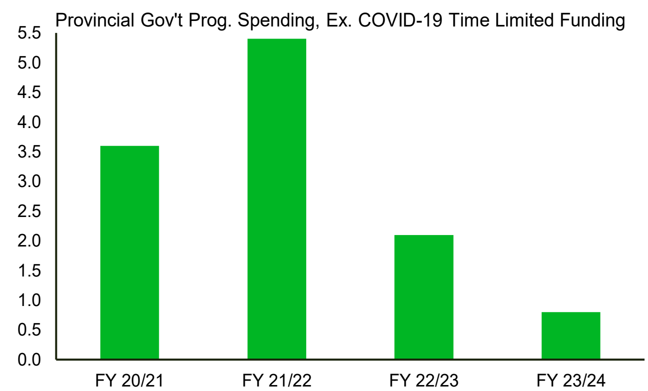
Ontario has paused its re-opening plan due to the virus. While the fall months could bring further increases in cases, Ontario's vaccine passport system (which begins on September 22nd) should reduce the need to resort to lockdowns. In addition, the provincial government and many firms in the private sector have begun mandating full-vaccinations or regular testing as part of their return-to-work policies. However, Ontario has maintained the strictest set of restrictions in the country for most of the pandemic, suggesting that measures (such as re-opening rollbacks) remain very much in play should the situation deteriorate.

Chart 1: Semiconductor Shortages Weigh Heavily on Q2 Canadian Automotive Exports and Ontario's GDP



*Seasonally adjusted at annual rates and Billions of Chained 2012 C$.
Source: Statistics Canada, TD Economics.

Chart 2: Program Spending Growth Set to Slow After This Fiscal Year



Source: 2021 Ontario Budget, TD Economics.

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

Economic Indicators	2021	2022	2023
Real GDP	4.4	5.0	2.8
Nominal GDP	9.9	7.9	4.8
Employment	4.4	3.8	1.5
Unemployment Rate (%)	8.1	6.2	5.5
Housing Starts (000's)	99.6	83.3	83.2
Existing Home Prices	22.4	2.8	0.5
Home Sales	15.3	-12.4	0.4

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

Québec

Quebec's economy probably held up better than that of Canada in the second quarter of 2021, partially reflecting a reopening that began earlier than other provinces. This view is grounded in Quebec's relative strength across several indicators (Chart 1), most notably employment and hours worked. Combined with a somewhat stronger start to the year and Quebec's first-half performance leaves it on track to outperform the nation in 2021.

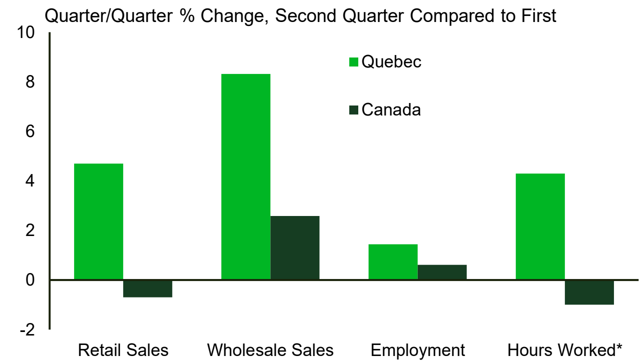
Looking ahead, the fourth wave of the virus has delivered a blow to household and business confidence in the province. Still, the implementation of vaccine passports on September 1st is expected to help avoid more damaging lockdowns and set the stage for a further uptick in Quebec's vaccination rates. As of writing, 83% of Quebec's eligible population has received a 2nd dose.

Housing demand in Quebec was red-hot, helping the construction sector make the largest contribution to overall growth in the year through May. However, there has been a bend in the homebuilding trend, as demand has come off the boil. This suggests that a once powerful tailwind will now be a headwind for growth over the remaining months of this year. In 2022, we expect construction output to grow (albeit at a slower pace than this year). However, the thrust should come from robust government investment, while homebuilding makes a relatively small contribution.

Government spending is also likely to support continued above-trend growth next year. Note that in its budget, Quebec's government projected stronger program spending growth in FY 2022/23 relative to most of its counterparts, after a solid gain this fiscal year. In addition, stronger-than-anticipated economic growth this year, alongside a deficit that totaled a mere $200 million in the first two months of FY 2021/22 (against full-year expectations of a $9 billion shortfall) could offer more spending leeway.

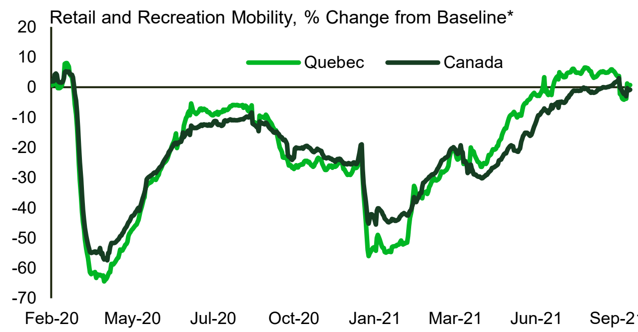
Quebec's household consumption was closer to its pre-pandemic level than Canada early in the year. And, higher frequency data point to consumer spending maintaining its relative strength (Chart 2) through most of the third quarter, lifted by early re-openings, elevated confidence, and high household savings. This suggests that household spending will anchor second half GDP. However, it also suggests that more pent-up demand has been soaked up in Quebec, and that slower spending growth is likely in 2022, despite a probable boost from increased tourism activity.

Chart 1: A Relatively Strong Second Quarter Should Help Quebec's Economy Outperform This Year



*Quebec's hours worked are seasonally adjusted by TD Economics.
Source: Statistics Canada, TD Economics.

Chart 2: Household Spending Recovering at a Comparatively Fast Pace in Quebec Through Much of the Third Quarter



*7-day moving average. The baseline is the median value for the corresponding day of the week, the 5-week period Jan 3 - Feb 6, 2020.
Source: Google, TD Economics. Last observation: September 16, 2021.

Québec Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	5.8	3.8	2.6
Nominal GDP	11.2	6.7	4.6
Employment	4.0	2.4	0.9
Unemployment Rate (%)	6.2	5.2	5.2
Housing Starts (000's)	70.5	47.4	43.1
Existing Home Prices	19.0	2.5	0.9
Home Sales	-4.4	-7.3	0.5

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

New Brunswick

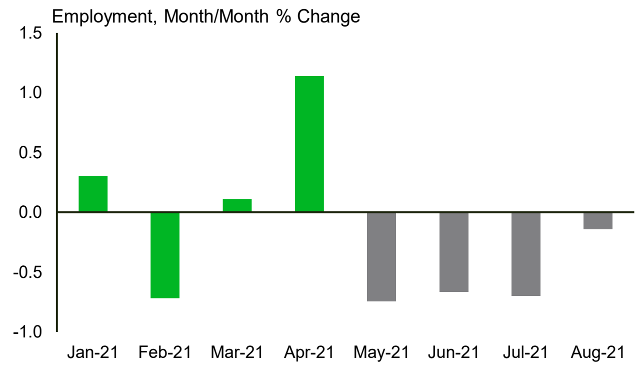
Recent softness in New Brunswick's labour market has prompted us to downgrade its 2021 outlook (-1.4 ppts) by more than Canada's (-1.2 ppts). The province has recorded four consecutive months of job losses since May (Chart 1). Worse, these losses appear to have been broad-based, with employment now below April's levels in 10 of the 16 industries. In fact, performance would have been even weaker had it not been for the ramp up in public sector hiring during the same time period. Due to this setback, year-to-date growth in total hours worked has slipped to ninth place among the provinces (only behind Saskatchewan). Considering New Brunswick's relative success in containing the pandemic and its earlier reopening, this has been a surprising turn of events that points to greater remaining slack in the economy.

Other activity indicators have been holding up better. As measured by trends in overall retail and restaurant sales, consumers' appetite to spend remained healthy into the early summer. Higher frequency indicators (for instance, mobility data at retail and recreation locations) also point to continued resilience in consumer engagement. New Brunswick has recently joined other provinces in announcing a vaccine passport system for non-essential services. This move, alongside a high vaccination rate, should set the stage for a revival in hiring in the coming quarters.

The goods sector should also continue to propel growth. Nominal exports and manufacturing sales (Chart 2) have recorded the strongest year-over-year increases so far in 2021 in the country (at 43% and 50%, respectively). The drop in lumbers prices and demand may act as a drag in the coming months. However, resilience in mobility and fuel demand trends in the province's key export markets, such as the U.S., should keep sales in the petroleum products industry on a solid footing. The recent depreciation in the Canadian dollar will also provide some modest support to export earnings.

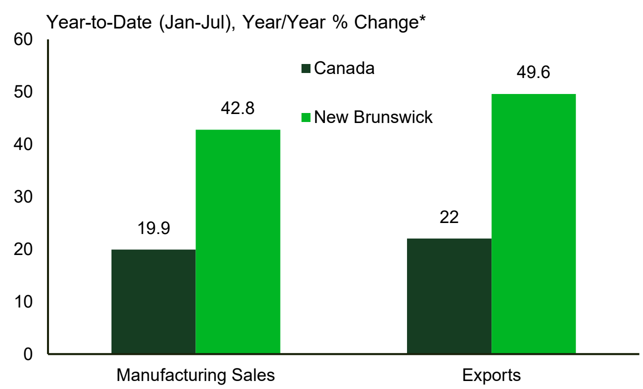
Meanwhile, resale and homebuilding markets are expected to contribute positively to 2021 growth, even after several years of torrid gains. Like the rest of the country, we expect this source of growth to turn into a modest drag going forward. On the flip side, non-residential investment appears to be showing signs of life, with permits up this year (but not yet fully recovered to pre-pandemic levels). Though somewhat dated, the capex survey earlier in the year also pointed to some optimism on the non-residential construction front.

Chart 1: After Leading the Country in the Labour Market Recovery, New Brunswick Saw Four Consecutive Months of Job Losses



Source: Statistics Canada, TD Economics.

Chart 2: Strong Growth in New Brunswick's Exports and Manufacturing Sales This Year



*Nominal.
Source: Statistics Canada, TD Economics.

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

Economic Indicators	2021	2022	2023
Real GDP	3.6	2.6	1.1
Nominal GDP	10.9	5.5	3.0
Employment	2.2	1.3	0.9
Unemployment Rate (%)	9.0	8.3	7.8
Housing Starts (000's)	3.8	2.8	2.2
Existing Home Prices	23.1	1.9	0.8
Home Sales	18.8	-4.5	0.3

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

Nova Scotia

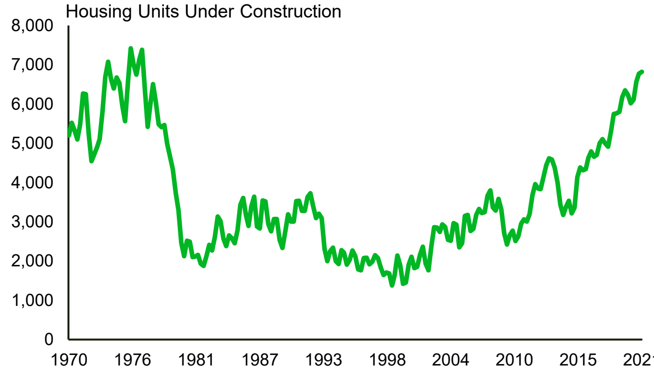
We are projecting an expansion of 4.2% for Nova Scotia this year, more than reversing the 3% decline in 2020. Note that employment remains only 0.4% below its pre-pandemic level as of August, one of the best performances in Canada. In the near term, recovery prospects should get a boost from implementation of the last phase of the Province's re-opening plan, expected to begin on October 4th. This last stage sees most restrictions lifted. And, while this could open the province up to a rise in cases, proof of vaccination will also be required on October 4th in order to participate in non-essential services.

The construction and finance, insurance and real estate (FIRE) industries are making solid contributions to overall economic activity. The former is being buoyed by strong housing construction (Chart 1) and the government's commitment to spend $1.2 billion on capital projects, while the province's heated housing market has helped FIRE employment increase by 5% year-to-date. Government program spending is projected at a firm pace this fiscal year, which is important as the public sector accounts for nearly one-third of GDP. The August 17th majority election win for PC party gives it room to implement its platform, which envisions balancing the budget in 6 years. Manufacturing activity has also impressed, with sales up 15% year-to-date, lifted by shipments of plastic and rubber products. This suggests that the tire manufacturing industry has held firm, despite weak automotive production (Chart 2).

We expect slower, but still relatively strong economic growth next year as well, as firm Canadian and U.S. growth supports manufacturing activity. Within the service sector, recent re-openings and pent-up demand will likely continue to buoy activity in high-contact industries. On the negative side, we expect housing starts to ease from their currently heated levels next year. In addition, the latest budget projected a decline in program spending next fiscal year. This could also be a constraining factor in 2023 as well, as inflation-adjusted spending declines are projected through FY 2024/25.

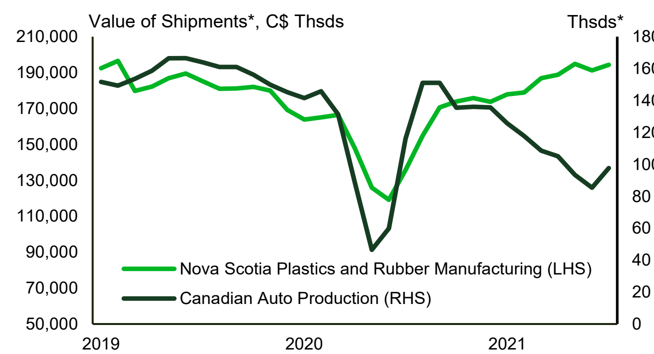
News on the go-forward potential of the large-scale Goldboro LNG project has not been favourable. And, while Pieridae Energy is still examining options to make the project viable, the risk is that this large-scale project (which would offer a huge boost to non-residential spending) does not move forward.

Chart 1: Nova Scotia's Housing Construction at a near Record Level



Source: CMHC, TD Economics. Last observation: Q2-2021.

Chart 2: Weak Auto Production Has Not Knocked Nova Scotia's Important Tire Manufacturing Industry off Its Perch



*Seasonally adjusted and 3 month moving average.
Source: Statistics Canada, TD Economics. Last observation: July 2021.

Nova Scotia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	4.2	2.4	1.0
Nominal GDP	10.9	5.2	2.9
Employment	5.3	2.0	0.8
Unemployment Rate (%)	8.3	7.6	7.5
Housing Starts (000's)	5.0	4.6	4.4
Existing Home Prices	22.3	2.8	0.9
Home Sales	10.4	-10.3	0.4

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

Prince Edward Island

PEI has yet to record a single death or hospitalization due to COVID-19, as case counts have remained low. As a result, restrictions have been loose and are relatively little changed through most of the pandemic.

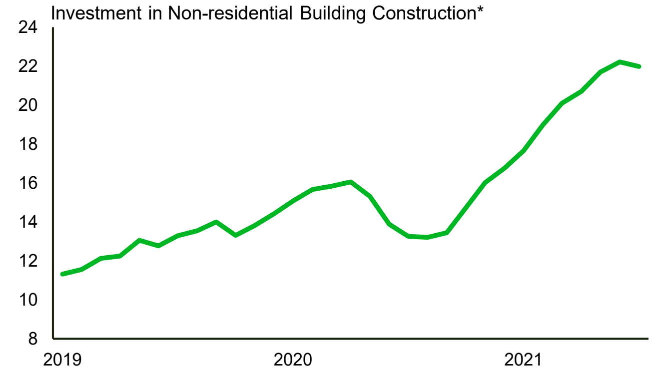
Businesses on the Island have certainly benefitted from the Province's loose stance, as retail and wholesale sales are up about 20 and 30%, respectively, year-to-date. This is well above Canada's performance. Provincial government spending and construction are also poised to make massive contributions to growth this year, the latter buoyed by a huge gain in non-residential building construction. This includes commercial investment, which has been bucking the nation-wide trend (Chart 1).

It's not all positive news however, as agricultural production may decline this year. Indeed, seeded area for most crops declined in 2021, and potato exports (an Island staple crop) have lagged. In addition, the jobs recovery has been somewhat subpar, with employment 3.4% below pre-pandemic levels in August, owing to the agricultural, construction, and accommodation and food services industries.

Next year, growth should slow from its heated 2021 pace, as a cooler housing market weighs on finance, insurance and real estate output as well as housing-related retail spending (Chart 2). Provincial program spending is also projected to ease next fiscal year, as is public capital investment. Somewhat slower homebuilding activity will also likely moderate activity in the overall construction sector. On the more supportive side, firm Canadian and U.S. growth will likely be a tailwind for the Island. Stronger population growth should also underpin domestic demand. However, it remains to be seen whether PEI can reclaim its pre-pandemic status atop the population growth leaderboard among provinces.

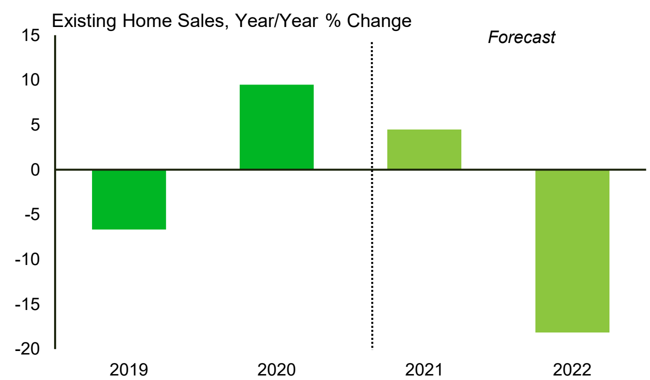
Tourism is key to PEI's outlook, and on this front, there have been some encouraging developments, as the U.S. was recently added to the list of places that travelers can visit from. This is important as nearly 10% of overnight visitors came from the U.S. in 2019. However, as more people from different jurisdictions visit the Island, the risk of a COVID-19 wave increases, which could set back PEI's economic progress.

Chart 1: Investment in Non-residential Building Construction Has Surged in PEI



*Seasonally adjusted and Millions of Chained 2012 C$.
Source: Statistics Canada, TD Economics. Last observation: July 2021.

Chart 2: Housing Markets Set to Cool next Year, Weighing on Economic Growth in PEI



Source: CREA, TD Economics.

P.E.I. Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	4.0	3.0	2.3
Nominal GDP	10.8	5.9	4.3
Employment	3.0	2.9	1.5
Unemployment Rate (%)	9.7	8.9	8.3
Housing Starts (000's)	1.3	1.0	1.1
Existing Home Prices	21.1	1.3	0.2
Home Sales	4.5	-18.1	0.2

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

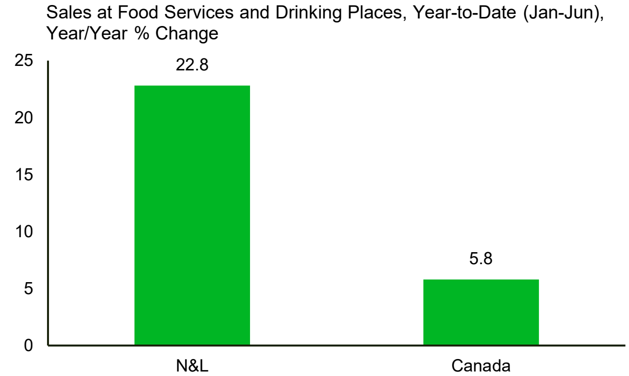
Newfoundland & Labrador

Newfoundland & Labrador continues to make further strides in its economic recovery. The rebound back to pre-pandemic levels of employment is only lagging that of Canada slightly, and growth in hours worked is running ahead of every province barring British Columbia. Newfoundland & Labrador managed to avoid the worst of the spring lockdowns, which helped sustain the recovery in its service sector. Restaurant spending was up 29% year-to-date, year/year in June, in contrast to the meagre 5% seen at the national level (Chart 1). While the province is not immune to rising Delta variant concerns, downside risks on activity in the near term are expected to be limited by the province's high vaccination rates (81% of the population with a first dose) and the provincial government's plans to implement a vaccine passport system. Meanwhile, housing markets have emerged as a bright spot after years of underperformance. Starts are anticipated to grow a whopping 70% this year, by far the largest increase in the country (Chart 2). Similarly, home sales in Newfoundland & Labrador are expected to record the second largest increase behind Alberta this year.

The key culprit behind our still-relatively-cautious growth outlook is the goods-producing sector, where conditions remain difficult. The non-residential construction sector will be constrained by the completion of the Muskrat Falls project this autumn. Oil production is set to end the year on a soft note as production takes a leg down in some of its aging offshore fields. On the flip side, the industry received a dose of good news that the Terra Nova platform will restart production in 2022 following an elongated maintenance shutdown. The outlook for new offshore investment remains uncertain, but sentiment has taken a turn for the better with the revival in Brent prices this year. A decision on the fate of the stalled West White Rose expansion project is expected in 2022. A final investment decision also remains unclear for the Bay Du Nord project, but messaging from the company earlier in June has cast the project in a favorable light.

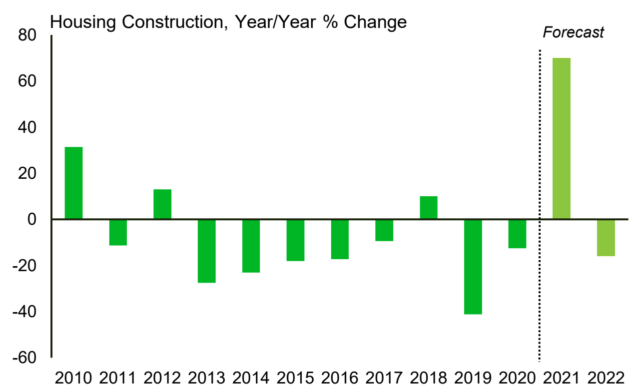
A hefty debt load and unfavourable demographics will continue to cast a shadow on the province's longer-term fiscal situation. On the bright side, the federal government has recently announced a preliminary agreement to provide financing support to the Muskrat Falls project. Faced with significant cost overruns, this eliminates a major source of lingering uncertainty around Newfoundland & Labrador's finances. Consumers and businesses are also breathing a sigh of relief knowing that this agreement will prevent a spike in electricity rates.

Chart 1: N&L Witnessing the Highest Increase in Restaurant Sales so Far in 2021



Source: Statistics Canada, TD Economics.

Chart 2: Homebuilding a Bright Spot in N&L This Year



Source: CMHC, TD Economics Forecast as of September 2021.

NFLD & Labrador Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2021	2022	2023
Real GDP	3.8	2.0	1.2
Nominal GDP	17.2	4.9	2.9
Employment	2.7	1.9	0.4
Unemployment Rate (%)	12.8	12.1	12.1
Housing Starts (000's)	1.3	1.1	1.0
Existing Home Prices	10.3	2.2	1.0
Home Sales	39.7	-6.5	0.1

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

Provincial Economic Forecasts

Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2021F	**2022F**	**2023F**	**2021F**	**2022F**	**2023F**	**2021F**	**2022F**	**2023F**	**2021F**	**2022F**	**2023F**	**2021F**	**2022F**	**2023F**	**2021F**	**2022F**	**2023F**
National	**4.9**	**4.4**	**2.8**	**12.6**	**7.1**	**4.8**	**4.5**	**3.0**	**1.3**	**7.5**	**6.1**	**5.6**	**273.2**	**214.8**	**207.5**	**20.8**	**1.8**	**0.7**
Newfoundland & Labrador	3.8	2.0	1.2	17.2	4.9	2.9	2.7	1.9	0.4	12.8	12.1	12.1	1.3	1.1	1.0	10.3	2.2	1.0
Prince Edward Island	4.0	3.0	2.3	10.8	5.9	4.3	3.0	2.9	1.5	9.7	8.9	8.3	1.3	1.0	1.1	21.1	1.3	0.2
Nova Scotia	4.2	2.4	1.0	10.9	5.2	2.9	5.3	2.0	0.8	8.3	7.6	7.5	5.0	4.6	4.4	22.3	2.8	0.9
New Brunswick	3.6	2.6	1.1	10.9	5.5	3.0	2.2	1.3	0.9	9.0	8.3	7.8	3.8	2.8	2.2	23.1	1.9	0.8
Québec	5.8	3.8	2.6	11.2	6.7	4.6	4.0	2.4	0.9	6.2	5.2	5.2	70.5	47.4	43.1	19.0	2.5	0.9
Ontario	4.4	5.0	2.8	9.9	7.9	4.8	4.4	3.8	1.5	8.1	6.2	5.5	99.6	83.3	83.2	22.4	2.8	0.5
Manitoba	4.5	3.6	2.8	12.0	6.0	4.8	3.4	2.6	1.2	6.5	5.2	4.7	7.8	5.9	5.2	9.2	3.5	1.5
Saskatchewan	4.0	3.4	3.0	21.7	5.1	4.6	2.2	2.3	1.4	7.0	6.2	5.5	4.1	4.1	4.0	7.4	2.2	1.4
Alberta	5.3	4.6	3.8	20.0	7.7	5.4	4.6	2.4	2.2	8.8	7.4	6.4	31.3	28.8	28.5	8.8	1.3	1.8
British Columbia	5.8	4.0	2.0	14.2	5.7	4.0	6.5	3.1	1.3	6.6	5.0	4.5	48.4	35.7	34.7	17.6	2.4	0.5

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at September 2021.