Canada's Flattening Landscape

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Economic conditions across different regions of Canada are converging in a way that we haven't seen in a long time, with growth in most provinces settling in around their potential rates. For an economy where regional variation is often extreme (think oil booms and busts), this is a pretty rare situation, with implications for the labour market, real estate and policy.

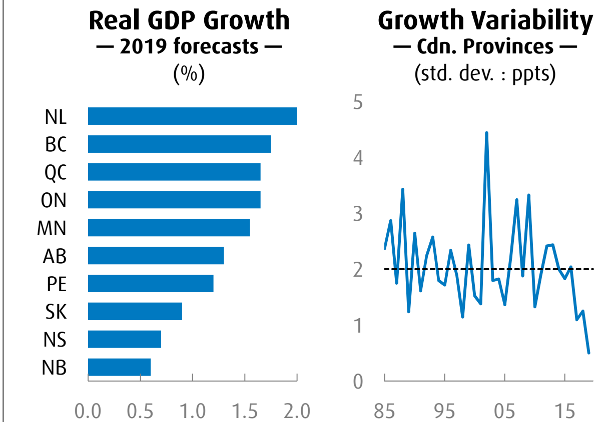
Overall economic growth for most provinces is now running around expected longer-run norms. At the top of the league table, growth is (temporarily) expected at 2% in Newfoundland & Labrador and just slightly below that mark in B.C., Quebec and Ontario. At the low end, New Brunswick and Nova Scotia are expected to post growth of around 0.6%, which is typical in that region. In fact, the **variability of estimated 2018 growth among the provinces was the lowest in at least 25 years**, and our current forecast expects an even tighter spread this year (*Chart 1*). No longer are parts of the country growing 6%, while others are meandering; or, some provinces are in recession, while others are accelerating—that has been the case for much of the past 15 years.

Labour market performance has converged as well. Notably, every province has posted job growth in the past year. The spread in jobless rates has also narrowed, to 4.7% at the low end (B.C.) and 11.5% at the high end (Newfoundland & Labrador). The latter is usually an outlier: The rest of Atlantic Canada now averages a low 7.6%. Jobless rate variability has actually been trending downward over a long period of time, perhaps helped by improved labour mobility (*Chart 2*). But, the latest move reverses the wider disparity seen in the wake of the oil price shock, when Alberta's rate surged, and Central Canada's fell. As a result, the chunky wage differential between high-paying Alberta and the other provinces has compressed since the oil shock.

Less variable labour market conditions across the country have caused interprovincial **migration flows** to balance out in some provinces. While a heated Ontario job market drew in 18,000 people in 2018, net flows in/out of Alberta have largely stabilized after drawing in nearly 40,000 people per year at the height of the boom (*Chart 3*). And, Atlantic Canada is no longer bleeding prime-age workers as it recently was, mainly to Alberta.

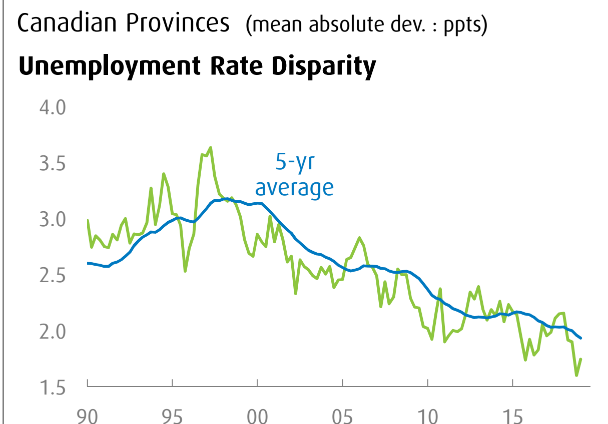
Finally, **housing market performance** has become more balanced, consistent with more even economic, job-market and demographic conditions. Provincial policy measures in the previously boiling B.C., and Southern Ontario markets have also helped to narrow the gap, while past BoC rate hikes and OSFI rule changes have dampened activity more broadly. In a nutshell, the weakest situation

Chart 1
Growth Gap Narrows



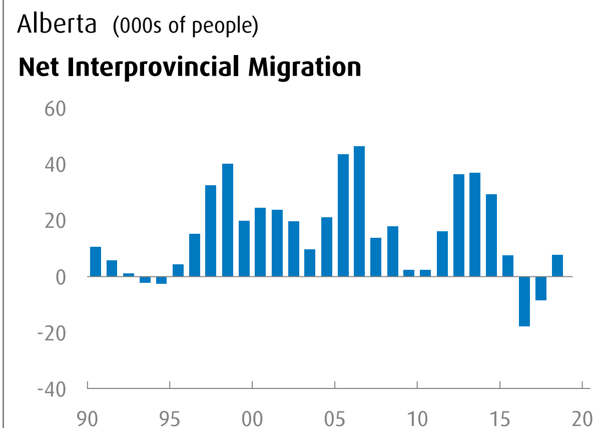
Sources: BMO Economics, Haver Analytics

Chart 2
Less Job Market Disparity



Sources: BMO Economics, Haver Analytics

Chart 3
Migration Flows Neutralizing



Sources: BMO Economics, Haver Analytics

in Canada is a correction by design (Vancouver), while the strongest are bouts of well-contained 6% price growth (Ottawa and Montreal).

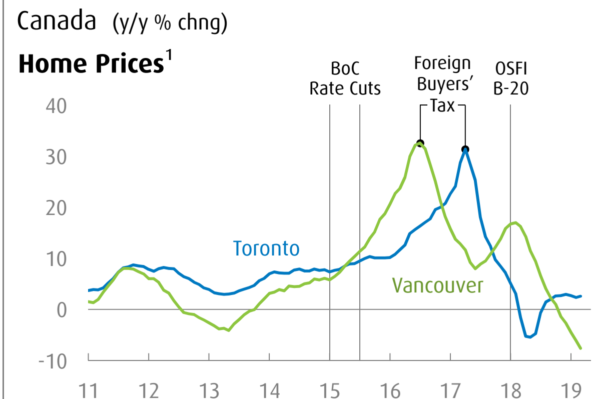
For policymakers, one of the ongoing challenges is setting policy for the country as a whole, when each region behaves so differently. It's often the case of having one foot in boiling water and one in ice—the average is just right, but neither foot is particularly comfortable. A recent example is when the Bank of Canada cut interest rates twice in 2015. Alberta was in recession at that time and needed stimulus, but the rate cuts were sparks for excessive conditions in B.C. and Ontario housing markets (which arguably could have used higher rates—*Chart 4*). For now, at least, conditions look quite balanced, and recent policy changes, such as foreign buyer taxes, have rightfully taken a more targeted approach on top of rate hikes.

Budget Season: Some Spending, Some Restraint

Nine provinces have tabled their FY19/20 budgets or given a meaningful fiscal update (post-election budgets from Alberta and PEI will be coming later). **Overall, this year's budget season doled out modest fiscal stimulus.** At the federal level, net new measures are $4.0 billion in FY19/20 (0.2% of GDP), rising to $5.7 billion in the following year—not big by any stretch, but not immaterial either. But, by letting the spending taps flow, Ottawa stepped deeper into the red ($19.8 billion this fiscal year) after strong revenues drove a better-than-expected FY18/19. At the provincial level, there was a clear mix of stimulus and restraint. Quebec, for example, rolled out $2.3 billion of new measures, lifting program spending by a hefty 5%. Ontario, however, has ratcheted down spending growth and is targeting meaningful restraint in real per-capita terms in the years ahead. Combined, provincial program spending growth is pegged at roughly 2.7% this fiscal year, or a very modest addition in real terms (*Chart 5*). With the exception of a 1 ppt PST reduction in Manitoba, tax changes were minimal (Alberta's pending budget could add further measures on this front). Federal spending growth will slow to below 2%, but that's partly because a big chunk of new spending was pushed out the door before FY18/19 ended.

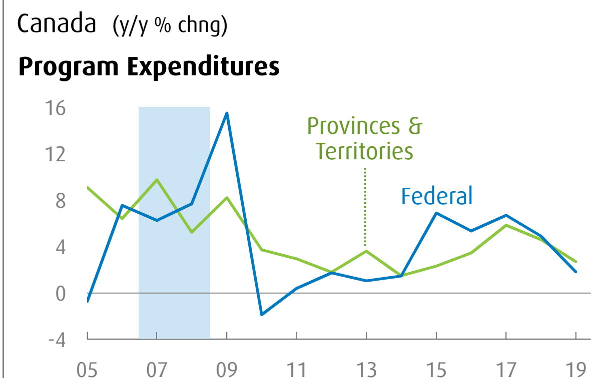
Assuming the fiscal year plays out as forecast, the majority of provinces (six or more) will post balanced budgets for the first time since FY07/08 (*Table 1*). This suggests that **the convergence theme is playing out on the fiscal front as well,** with previously strong credits in oil-producing provinces backtracking in recent years, while Quebec and parts of Atlantic Canada are seeing their debt burdens shrink. In fact, the spread between the highest and lowest net debt-to-GDP ratios will be the smallest in 28 years in FY19/20. The variability in 10-year credit spreads has also come down significantly since the oil shock, when a few provinces saw their spreads move sharply wider versus Ontario.

Chart 4
Home Prices: Tamed by Targeted Measures



[1] MLS Home Price Index
Sources: BMO Economics, Haver Analytics

Chart 5
Spending Growth Moderates



Year marks first year of fiscal period (e.g., 19 = FY19/20)
Shading marks period of Canadian recession
Sources: BMO Economics, Haver Analytics

Table 1
Budget Recap: Deficits Persist

Budget Balance	FY18/19	FY19/20	FY19/20	Net Debt
Region	($ mlns)		(% of GDP)	
British Columbia	374	274	0.1	15.0
Alberta[1]	(6,930)	(7,912)	**(2.2)**	10.7
Saskatchewan	(380)	34	0.0	15.1
Manitoba	(470)	(360)	(0.5)	34.7
Ontario	(11,700)	(10,300)	**(1.2)**	40.7
Quebec	5,606	2,504	0.6	38.8
New Brunswick	5	23	0.1	37.0
Nova Scotia	28	34	0.1	33.8
Prince Edward Island[1]	14	13	0.2	32.4
Newfoundland & Labrador	(522)	(575)[2]	**(1.6)**	39.1
Total	**(13,975)**	**(16,266)**	**(0.7)**	**30.3**
Federal	**(14,900)**	**(19,800)**	**(0.9)**	**30.7**

[1] Latest fiscal update [2] Excl. $2.5 billion Atlantic Accord payment
Sources: BMO Economics, budgets ( ) = deficit

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