Provincial Monitor

BMO Capital Markets
We're here to help.™

An update on provincial economic and fiscal matters **Spring 2018**

Converging to Potential

Robert Kavcic, Senior Economist • robert.kavcic@bmo.com • 416-359-8329

The Canadian economy has cooled after roaring through mid-2017, with national growth expected to slow to 2.0% in 2018 from 3.0% last year. All provinces are expected to see growth soften as well, as the gradual return to more trend-like conditions continues. **British Columbia** is expected to reclaim its position at the front of the pack, but growth will likely downshift to 2.4% after four straight years above the 3% mark. **Alberta** will see one of the most noteworthy swings, slowing to 2.2% after leading the pack with 4.9% growth in 2017. Part of that strength reflected a rebound from the recession and wildfires, but our view remains that growth in the province will run in the 2%-to-2.5% range over the next few years, much softer than the past decade. **Saskatchewan** should see growth at just under 2%, while **Manitoba** will continue its workmanlike performance—growth has barely budged from a solid 2.4% average this cycle.

Ontario and **Quebec** should also begin to moderate after a heated multi-year run that has seen some of the best growth in at least a decade—growth in these two provinces is expected at 2.0% and 2.2%, respectively this year, each down more than half a percentage point. Still, the broader theme remains a rotation of economic strength back into the three largest provinces (B.C., Ontario and Quebec) after a decade in the shadow of Alberta. Indeed, broad macroeconomic conditions—low, albeit rising, interest rates; robust job growth; and demographic momentum—in Central Canada are as good as they've been in 15 years or more. The key risk in the region is how NAFTA talks play out, with U.S. exports weighing in at 26% of Ontario GDP, leaving it the most exposed province. Also, stricter mortgage qualification rules introduced by OSFI at the start of the year are still supressing housing demand in Southern Ontario, while businesses are absorbing a 21% increase in the minimum wage as of January 1st. Both provinces also face elections in the months ahead.

Canada

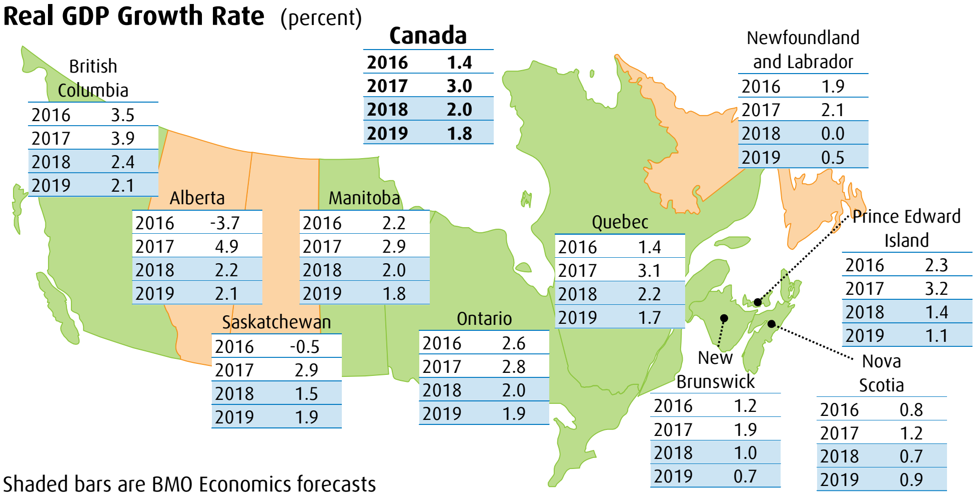
Population:	36,229,000
Area:	9,984,670 km^2
GDP/Capita:	$55,800
Capital:	Ottawa
Party in Power:	Liberals
Prime Minister:	Rt. Hon. Justin Trudeau
Finance Minister:	Hon. Bill Morneau

Legislative Seats:	
Liberals	183
Conservatives	97
NDP	44
Bloc Québecois	10
Green	1
Independent	2
Vacant	1

Majority government since October, 2015

Provincial GDP

Real GDP Growth Rate (percent)



Shaded bars are BMO Economics forecasts

Finally, a population boost has helped lift growth in much of **Atlantic Canada** above potential over the past two years. While that could persist in 2018, we believe the process of gradually returning to trend will play out in this part of the country as well. One challenge will be retaining recent migrants in a relatively weak labour market, which would buck the trend of population flows to stronger regional economies. Some provinces in the region are also starting to feel some hangover after a number of major private- and public-sector capital spending projects reached completion.

Notably, **regional growth is converging**, a stark change from wide disparities seen over the past decade—be it when the oil producers were romping around 5%, or more recently when they were stuck alone in recession. The proof is that the standard deviation of provincial growth rates was the lowest in 24 years of data in 2017.

Government Finances: Budget Season Wrap

The 2018 budget season is now complete, and the overriding theme was an **opening of the spending taps** in the largest provinces. The combined provincial deficit is expected to widen to $16 billion in FY18/19, roughly twice the level now expected for FY17/18. While that weighs in at a moderate 0.4% of GDP, the move deeper into the red is noteworthy given that it is taking place at what is likely near the top of the business cycle. Below the surface, **Ontario** and **Quebec** are responsible for all of the deterioration, with seven of the remaining eight expecting improved (albeit marginally in most cases) bottom lines this year. While Quebec sprinkled on a few more modest tax-relief measures this year, Ontario's budget came with net tax increases, leaving higher spending as the catalyst for the deficit increase. Indeed, combined provincial program spending is expected to rise a hefty 4.0% in FY18/19, following an already torrid flow (+5.3%) in FY17/18—the latter was the strongest growth in provincial program spending since the 2009 stimulus budgets.

Here is a recap of this year's most noteworthy budgets:

The **Province of Ontario** is projecting a $6.7 billion deficit in FY18/19 (0.8% of GDP), in a swift pre-election foray back into the red ahead of a June vote. The Province is also showing little interest in balancing the books in any reasonable time frame, with deficits expected to persist at an average of $6.6 billion through FY20/21, before gradually returning to balance by FY24/25. With little detail on the latter, we'll just go ahead and call it a $6 billion structural deficit (there's a small reserve built in). As a result, net debt will resume its trend higher as a share of GDP after dipping for three consecutive years. The ratio is expected to rise to 37.6% in FY18/19, and peak at just under 39% around 2021—given we're likely near the top of business cycle, that could be the best-case scenario.

The **Province of Quebec** is projecting a fifth consecutive surplus in FY18/19, while delivering a large serving of goodies ahead of an October election. Before transfers to the Generations Fund (for debt reduction), the surplus is pegged at $904 million (0.2% of GDP), down from a larger-than-expected $3.1 billion now estimated for FY17/18. Note that the Province will draw $1.6 billion from the stabilization reserve in order to meet Generations Fund contribution requirements, and still report a balanced budget for legislative purposes. Regardless of these mechanics, the Province is tapping into its strong fiscal position, allowing spending and tax-relief to

Fiscal Summary

FY18/19	Budget Balance ($ mlns)	% of GDP	Net Debt (% of GDP)
BC	219	0.1	15.3
AB	(8,802)	(2.5)	8.7
SK	(365)	(0.4)	15.4
MB	(521)	(0.7)	34.1
ON	(6,700)	(0.8)	37.6
QC	904	0.2	43.0
NB	(189)	(0.5)	39.9
NS	29	0.1	34.2
PE	2	0.0	33.1
NL	(683)	(2.1)	47.3
Total	**(16,106)**	**(0.7)**	**30.4**

FY18/19	Borrowing ($ mlns)	Funded
BC	7,918	0%
AB	15,400	0%
SK	TBD	0%
MB	6,418	9%
ON	31,700	0%
QC	14,922	4%
NB	2,262	4%
NS	1,363	0%
PE	TBD	0%
NL	1,450	0%
Total	**81,433**	**2%**

	S&P	Moody's	DBRS
BC	AAA	Aaa	AA (high)
AB	A+	Aa1[2]	AA
SK	AA	Aaa	AA
MB	A+	Aa2	A (high)
ON	A+	Aa2[2]	AA (low)
QC	AA-	Aa2	A (high)
NB	A+	Aa2	A (high)[2]
NS	A+[1]	Aa2	A (high)
PE	A	Aa2	A (low)
NL	A	Aa3[2]	A (low)

Source: Provinces, BMO Capital Markets, S&P, Moody's, DBRS ( ) = deficit
[1] pos. outlook [2] neg. outlook

flow freely this coming fiscal year. Still, net debt continues to decline as a share of GDP, pegged at 43.0%, down from above 50% five years ago.

The **Province of Alberta** is projecting an $8.8 billion deficit for FY18/19 (2.5% of GDP) as WTI oil prices are expected to average $59 and some spending restraint enters the equation. The shortfall is only slightly narrower than the $9.1 billion expected for FY17/18 but, the Province has set a timeline to balance the books, albeit well out in FY23/24. While a target date is a positive development versus the 'deficits forever' layout of recent budgets, we're going to reserve our enthusiasm. Oil prices are already near what we'd consider equilibrium levels, and the Province is banking on a gradual increase to $74 for WTI by 2024 (while also assuming that pipeline capacity is built and the differential narrows accordingly). And, while the Province has built in a $500 million contingency this fiscal year, rising to $1 billion by FY20/21, it disappears in the latter years of the fiscal plan (presumably to show a balanced budget). The Province has scaled back its capital spending program, which will allow a smaller borrowing requirement this coming fiscal year.

The **Province of British Columbia** is projecting a small $219 million surplus for FY18/19 (0.1% of GDP), which would mark the sixth consecutive year in the black. A $350 million forecast allowance is in place, along with $550 million for spending contingencies, providing plenty of wiggle room for the upcoming fiscal year—this prudence also rises to larger-than-normal levels through the forecast horizon. Small surpluses extend over the three-year forecast horizon, but net debt has begun to rise moderately as a share of GDP, thanks to a hefty capital spending program. This is noteworthy after the ratio fell almost 3 ppts in the four years through FY16/17.

The **Province of Manitoba** is projecting a $521 million summary budget deficit in FY18/19, improved from the $726 million now expected for FY17/18. That weighs in at 0.7% of GDP, still one of the chunkier shortfalls on the provincial landscape. Notably, FY17/18 is tracking better than expected, and the entire deficit profile is improved—the cumulative shortfall between FY17/18 and FY19/20 is now $450 million lower than projected a year ago.

Table 1

Provincial Credit Report Card (as of May 3, 2018)

	Budget Plan		Net Debt		Taxes		Economy		**Overall Grade**	
	Level	Progress	Level	Progress	Relative	Progress	Current	Progress	**Current**	**Progress**
British Columbia	A–	—	A–	—	A	↓	A+	—	**A**	—
Alberta	D	↓	A+	↓	A+	↓	B	—	**B+**	↓
Saskatchewan	C	↑	A–	↓	A	↓	B-	—	**B**	—
Manitoba	C	↑	C	↓	C+	—	B+	—	**C+**	—
Ontario	C-	↓	C	↓	B	↓	A	—	**B–**	↓
Quebec	B+	—	C–	↑	D+	↑	A–	—	**B–**	↑
New Brunswick	C+	—	C–	—	D+	↓	B–	—	**C**	—
Nova Scotia	A–	—	C+	↑	D	↑	B–	—	**C+**	↑
Prince Edward Island	B	—	C+	↑	D+	↓	B–	—	**C+**	—
Newfoundland & Labrador	D	↑	D	↓	D+	↓	D	—	**D**	—

Levels: A+ = Very Strong, A = Strong, B = Neutral, C = Weak, D = Very Weak.
Progress: Current and expected improvement (↑) or deterioration (↓), past through next fiscal year

Source: BMO Economics

Special Topic: Ontario and Quebec Trading Places?

Quebec has been outperforming Ontario on the fiscal front in recent years, with investors now consistently demanding less to lend to Quebec—this is a stark change from a few years ago, when Quebec yields were running as much as 15 bps above Ontario. Most of the shift results from positive developments in Quebec: The current government implemented a multi-year spending restraint plan; surpluses were used to fund tax reductions; and debt has fallen as a share of GDP more than anywhere in Canada versus five years ago. This has stoked business confidence beyond that resulting from improved external economic conditions. In Ontario, fiscal trends have hardly been negative, but the Province has left considerable room for consolidation and/or tax relief unused in exchange for higher program spending—and then came the 2018 deficit budget.

Using our scorecard as a guide (in which we now rate the provinces equally), here are some comparative points to consider:

Budget plan: Arguably the biggest driver of Quebec outperformance, the Province is projecting a fifth consecutive surplus after transfers to the Generations Fund for debt reduction. In contrast, by just balancing the books by FY17/18, Ontario passed up a big opportunity for fiscal consolidation, and the 2018 deficit budget was a major step back, effectively returning the Province to a structural deficit. *Advantage: Quebec.*

Debt burden: The level of net debt relative to GDP still favours Ontario by nearly 7 ppts as of FY17/18, but the gap is closing fast. In fact, the gap has been cut in half from just five years ago, and Quebec's ratio is now officially projected to fall below Ontario's by FY22/23. The Province will use Generations Fund savings to reduce borrowing and debt service costs in the years ahead, while Ontario has set its ratio back on a rising course. *Advantage: Ontario, but it's slipping fast.*

Tax burden: Quebec has made progress on this front, but still remains a high-tax jurisdiction in most areas. While top marginal income tax rates are similar, treatment at the lower end of the income spectrum is much more favourable in Ontario, and the sales tax is 2 ppts lower in that province. Both have implemented cap-and-trade programs. This arguably leaves more room for Ontario to manoeuver if revenues become strained. *Advantage: Ontario.*

Economy: Both are experiencing the best cyclical conditions in at least a decade, with growth near 3% in 2017. A key difference is that Quebec's population is older and potential growth is likely almost half a percentage point slower. From a longer-term perspective, this leaves Quebec with a slower-growing revenue base, and more advanced need to fund an aging population. *Advantage: Ontario.*

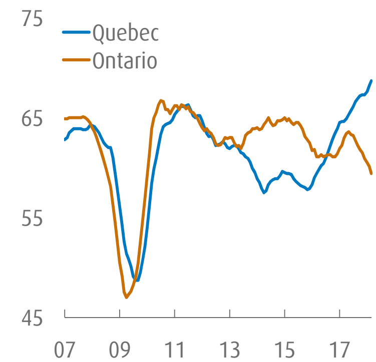
Politics: Ontario heads to the polls in June and Quebec in October. With Ontario already pivoting well to the left, the *risk* is a policy shift back toward fiscal restraint. In Quebec, the picture is less clear, but what is known is that the separatist agenda is at rest for now (a positive for the credit since the 2014 election).

The Bottom Line: We wouldn't rush to place Quebec too far ahead of Ontario just yet, even if trends are moving that way. Fundamentally, the latter still has a number of advantages, and the relative deterioration has largely been due to policy choices.

Business Confidence Shifts

(12-month average)

Business Barometer

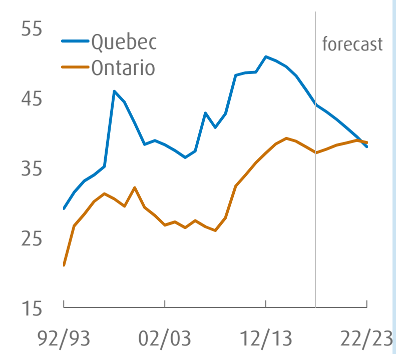


Source: CFIB

Crossover Coming?

(% of GDP)

Net Debt



Source: Fiscal Reference Tables/Provincial budgets

Investors Buy Quebec

(10-yr yield spread, bps)

Quebec minus Ontario

Source: Bloomberg. Monthly averages.

British Columbia

British Columbia will likely reclaim top spot on the Canadian growth landscape this year, with real GDP expected to grow 2.4%. Still, that would mark a softening after four consecutive years above the 3% mark, as higher interest rates begin to bite.

The **Vancouver housing market** has shaken off prior cooling measures (i.e., 15% tax on non-resident buyers, recently raised to 20%), and the overall market is relatively balanced again. Below the surface, single-detached home prices are stable, while condo prices are up nearly 30% y/y. That said, there are a record number of condo units currently under construction, some of which could help alleviate the price pressure as they come to completion over the next year. The Province will also introduce a 'speculation tax' targeting homes left vacant by non-resident buyers.

The **labour market** is strong, with employment growth leading all provinces in 2018Q1, and the jobless rate nearing a decade low below 5%. That has been drawing in increased **migration** from other provinces (adding to a stream of international inflows), but one wonders if limited housing availability is now playing a role in cooling this trend.

Non-energy **mining investment** has downshifted notably, and continues a multi-year period of retrenchment. Development in the LNG sector remains in flux after some high-profile projects (including Pacific Northwest LNG) were shelved last year, while the Trans Mountain expansion remains clouded in uncertainty.

The Province of British Columbia is projecting a **small $219 million surplus** for FY18/19 (0.1% of GDP), the sixth consecutive year in the black. A $350 million forecast allowance is in place, along with $550 million for spending contingencies, providing plenty of wiggle room. Small surpluses extend over the forecast horizon, but net debt has begun to rise moderately as a share of GDP, thanks to a hefty capital spending program.

British Columbia

Population: 4,849,000
GDP/Capita: $55,200
Party in Power: NDP
Premier: Hon. John Horgan
Finance Minister: Hon. Carole James

Legislative Seats:	
Liberals	42
NDP	41
Green	3
Independent	1

Coalition government since May, 2017

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	3.9	2.4	2.1
Employment	(% chng)	3.7	1.2	1.1
Jobless Rate	(%)	5.1	4.7	4.6
Housing Starts	(000s)	43.5	38.0	37.0
Cons. Prices	(% chng)	2.1	2.2	2.2
Fiscal Situation		FY17/18	FY18/19	
Balance	(C$ mlns)	151	219	
	(% of GDP)	0.1	0.1	
Net Debt	(C$ mlns)	42,324	44,743	
	(% of GDP)	15.2	15.3	

Shading: forecast [1] 2017 : by industry

Alberta

Alberta's economy is softening after 4.9% growth led all provinces last year. That pace is likely to settle in at 2.2% in 2018, and then hold around that rate over the next few years. While still solid, it paints a much softer overall economic picture than that enjoyed over the past 15 years.

The **energy sector** directly accounts for roughly a quarter of Alberta GDP. Our forecast for relatively stable oil prices around current levels suggests ongoing maintenance of existing projects, but not a lot of new capital investment, with more activity in U.S. shale.

The **housing market** has stabilized after a prolonged correction that saw benchmark prices in Calgary fall 6% from peak levels. Housing starts have found a footing, though well down from pre-shock levels. **Commercial real estate**, however, remains awash in supply with vacancy rates topping 25% in Calgary's downtown office segment.

The **labour market** has improved, with employment now back above 2015 levels and the jobless rate falling below 7% (it peaked at 9.0% in November 2016). Still, the province is seeing net interprovincial outflows as relative economic prospects have improved in other regions and wage differentials (previously widely in Alberta's favour) have narrowed.

The Province of Alberta is projecting an **$8.8 billion deficit for FY18/19** (2.5% of GDP) as WTI oil prices are expected to average $59. The shortfall is only slightly narrower than the $9.1 billion expected for FY17/18, and the Province will not balance the books until well out in FY23/24. The Province is banking on a gradual increase in WTI to $74 by 2024 (while also assuming that pipeline capacity is built and the differential narrows).

Alberta

Population: 4,319,000
GDP/Capita: $72,900
Party in Power: New Democrats
Premier: Hon. Rachel Notley
Finance Minister: Hon. Joe Ceci

Legislative Seats:	
NDP	54
UCP	25
Alberta Party	3
Liberal	1
PC	1
Independent	1
Vacant	2

Next election by: May, 2019

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	4.9	2.2	2.1
Employment	(% chng)	1.0	1.9	1.3
Jobless Rate	(%)	7.8	6.3	5.7
Housing Starts	(000s)	29.3	27.0	30.0
Cons. Prices	(% chng)	1.5	2.0	2.1
Fiscal Situation		FY17/18	FY18/19	
Balance	(C$ mlns)	-9,066	-8,802	
	(% of GDP)	-2.7	-2.5	
Net Debt	(C$ mlns)	20,269	30,510	
	(% of GDP)	6.0	8.7	

Shading: forecast [1] 2017 : by industry

Saskatchewan

Saskatchewan's economy remains subdued, as the effect of the oil price downturn lingers. Real GDP is expected to advance a moderate 1.9% this year, underperforming the national average for a fifth straight year, though marking a pickup after little net growth over the past three years.

The **oil sector** has been retrenching, with the Province expecting relatively stable production over the near term. **Potash** production is rising at a steady clip but prices are depressed. Overall resource-sector capital investment is expected to fall for a fourth straight year in 2018. **Crop production** was challenged by dry weather last year, with wheat output likely down roughly 10%—more normal conditions this year would boost overall growth.

The **labour market** remains sluggish, with employment little-changed from five years ago, and private-sector employment tracking below year-ago levels. That has lifted the jobless rate above the national average (at least temporarily) for the first time since the late-1990s. **Population growth** remains elevated at 1.2% y/y, but has softened over the past three years—the province is again losing migrants to other regions.

For the **housing market**, the slowdown in employment and population growth comes at a time when a glut of new supply from the prior boom is still getting absorbed, though Regina and Saskatoon are seeing progress on this front (along with stagnant prices).

The Province of Saskatchewan is projecting a **$365 million deficit** for FY18/19, or a moderate 0.4% of GDP. That is down from $595 million expected for FY17/18. The Province set out last year to balance the budget in FY19/20, and that plan remains on track with a modest surplus projected for next fiscal year alongside a conservative oil price forecast and rigid spending restraint.

Saskatchewan

Population: 1,164,000
GDP/Capita: $67,000
Party in Power: Saskatchewan Party
Premier: Hon. Scott Moe
Finance Minister: Hon. Donna Harpauer

Legislative Seats:

Sask. Party	48
NDP	12
Vacant	1

Next election by: November, 2020

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	2.9	1.5	1.9
Employment	(% chng)	-0.1	0.3	0.7
Jobless Rate	(%)	6.3	5.6	5.2
Housing Starts	(000s)	5.0	4.6	5.0
Cons. Prices	(% chng)	1.7	1.9	1.9
Fiscal Situation		**FY17/18**	**FY18/19**	
Balance	(C$ mlns)	-595	-365	
	(% of GDP)	-0.8	-0.4	
Net Debt	(C$ mlns)	11,775	12,648	
	(% of GDP)	14.9	15.4	

Shading: forecast [1] 2017 : by industry

Manitoba

Manitoba continues to grow at a steady pace, with real GDP expected to rise 2.0% this year, down from a solid 2.9% in 2017. Manitoba is benefiting from low energy-sector exposure, a diverse manufacturing base and a sturdy service sector.

Agriculture output faced tougher conditions through 2017, even as it was spared the worst of the drought. **Manufacturing** has had a reasonable run since 2010, and should continue to benefit from solid U.S. demand, particularly with Midwest factory activity ramping up, and business investment gaining momentum—NAFTA remains a risk.

The **labour market** is sturdy, with employment growth fading from near 3% y/y at one point last year. The jobless rate remains tucked neatly around 5.5%, with little deviation in recent years, highlighting the province's stability.

Housing market activity should remain stable, with sales and price growth both modest, supported by solid population growth and favourable affordability.

The Province of Manitoba is projecting a **$521 million summary budget deficit** in FY18/19, improved from the $726 million now expected for FY17/18. That weighs in at 0.7% of GDP, still one of the chunkier shortfalls on the provincial landscape. Notably, the entire deficit profile is improved—the cumulative shortfall between FY17/18 and FY19/20 is now $450 million lower than projected a year ago. Net debt, however, continues to rise, on pace to reach 34.3% of GDP this coming fiscal year.

Manitoba

Population: 1,347,000
GDP/Capita: $51,100
Party in Power: Progressive Conservatives
Premier: Hon. Brian Pallister
Finance Minister: Hon. Cameron Friesen

Legislative Seats:

PC	39
NDP	12
Liberal	3
Independent	2
Vacant	1

Majority government since April, 2016

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	2.9	2.0	1.8
Employment	(% chng)	1.6	0.1	0.6
Jobless Rate	(%)	5.4	5.9	5.8
Housing Starts	(000s)	7.6	5.5	6.0
Cons. Prices	(% chng)	1.6	2.3	2.1
Fiscal Situation		**FY17/18**	**FY18/19**	
Balance	(C$ mlns)	-726	-521	
	(% of GDP)	-1.0	-0.7	
Net Debt	(C$ mlns)	23,952	25,044	
	(% of GDP)	33.8	34.3	

Shading: forecast [1] 2017 : by industry

Ontario

Ontario continues to drive national economic growth, with real GDP likely expanding 2.0% this year, following the best four-year run for the province in 15 years. While moderating, growth would remain slightly above potential and reflect ongoing performance at least in-line with the national average.

After rising strongly through much of the cycle, **export volumes** have been fading since early 2016. Longer-term issues remain for exports and manufacturing, as relatively high labour and electricity costs continue to pose challenges—many sectors are pushing capacity limits, but have been shy to deploy new investment. Meantime, Ontario is without a doubt the province most exposed to **NAFTA**, which remains the key risk.

The **housing market** is still adjusting to a wave of policy measures that included a 15% tax on non-resident buyers (April 2017), Bank of Canada rate hikes and stricter lending rules from OSFI. Toronto detached home prices are down roughly 10% from their peak, but have begun to stabilize. Condo prices, however, are hitting record highs, and are up nearly 20% y/y. The **labour market** is strong, with employment growth among the fastest in Canada—most has been concentrated in Toronto and surrounding areas. The jobless rate is a few ticks above a 27-year low, and the province is drawing in a record 175,000 migrants/year from outside Canada and other provinces.

The Province of Ontario is projecting a **$6.7 billion deficit in FY18/19** (0.8% of GDP), in a swift pre-election foray back into the red ahead of a **June election**. The Province is also showing little intent to balance the books in any reasonable time frame, with deficits expected to persist at an average of $6.6 billion through FY20/21, before gradually returning to balance by FY24/25. As a result, net debt will resume its trend higher as a share of GDP after dipping for three consecutive years.

Ontario

Population: 14,319,000
GDP/Capita: $57,000
Party in Power: Liberals
Premier: Hon. Kathleen Wynne
Finance Minister: Hon. Charles Sousa

Legislative Seats:

Liberals	55
PC	28
NDP	18
Independent	2
Vacant	4

Next election June 7, 2018

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	2.8	2.0	1.9
Employment	(% chng)	1.8	1.6	1.2
Jobless Rate	(%)	6.0	5.4	5.2
Housing Starts	(000s)	80.1	80.5	71.5
Cons. Prices	(% chng)	1.7	2.5	2.2
Fiscal Situation		**FY17/18**	**FY18/19**	
Balance	(C$ mlns)	1	-6,700	
	(% of GDP)	0.0	-0.8	
Net Debt	(C$ mlns)	308,203	325,041	
	(% of GDP)	37.1	37.6	

Shading: forecast [1] 2017 : by industry

Quebec

Quebec is posting one of the best economic performances, both in absolute and relative terms, in 15 years. Real GDP grew 3.1% last year, up from a 1.4% average in the four prior years. Growth should moderate to 2.2% this year, but remain strong by recent standards and well above potential.

Net export momentum has faded in recent quarters, but M&E investment has accelerated sharply after a multi-year lull. Confidence is being helped by a stable political backdrop and much-improved government finances. The **labour market** performance has been impressive, with Quebec posting some of the best job growth in Canada and the jobless rate falling below the national average for the first time outside the financial crisis—it is currently trending just above 5%.

Montreal's housing market is seeing momentum improve after a multi-year period of stagnation. Benchmark prices have clearly broken out to the upside, and are now running at 6% y/y pace—that's the best in seven years. There is evidence of rising non-resident investment, but labour market fundamentals and relative affordability are also helping.

The Province of Quebec is projecting a **fifth consecutive surplus in FY18/19**, while delivering a large serving of goodies ahead of an **October election**. Before transfers to the Generations Fund (for debt reduction), the surplus is pegged at $904 million (0.2% of GDP). The Province is tapping into its strong fiscal position, allowing spending and tax-relief to flow freely this coming fiscal year. But, net debt continues to decline as a share of GDP, pegged at 43.0%, down from above 50% five years ago.

Quebec

Population: 8,440,000
GDP/Capita: $47,200
Party in Power: Liberals
Premier: Hon. Philippe Couillard
Finance Minister: Hon. Carlos Leitao

Legislative Seats:

Liberals	68
PQ	28
CAQ	21
Independent	8

Next election: October 1, 2018

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	3.1	2.2	1.7
Employment	(% chng)	2.2	1.7	0.9
Jobless Rate	(%)	6.0	5.4	5.2
Housing Starts	(000s)	46.1	46.0	38.0
Cons. Prices	(% chng)	1.1	2.1	2.0
Fiscal Situation		**FY17/18**	**FY18/19**	
Balance	(C$ mlns)	3,142	904	
	(% of GDP)	0.8	0.2	
Net Debt	(C$ mlns)	181,141	183,433	
	(% of GDP)	43.9	43.0	

Shading: forecast [1] 2017 : by industry

New Brunswick

Economic growth is softening in New Brunswick, and remains subdued versus its peers. Real GDP is likely to expand 1.0% this year, down from 1.9% in 2017. Growth is then expected to remain below 1% going forward as demographics continue to weigh on potential growth—even though they are supportive right now.

Capital spending has retrenched recently as some major projects have wound down in the forestry and refining sectors. Challenges also persist in the potash sector, while **forestry exports** face a challenge on the trade front, despite solid U.S. housing market.

Labour market trends have improved, with employment rebounding from the 2016 lows, but private-sector employment is at the same level it was 10 years ago. Interestingly, the unemployment rate plunged to just 6.5% at one point last year (a record low), but that came alongside a big decline in the labour force. The jobless rate has since move back to around 8%. **Demographics** remain a major challenge, as the province continues to see net outward migration and an aging population left behind. However, population growth has turned positive in recent quarters after four years of outright decline, spurred by a jump in international immigration.

The Province of New Brunswick is projecting a **$189 million deficit for FY18/19**, or a moderate 0.5% of GDP. That follows a $115 million shortfall now expected for FY17/18, which is tracking comfortably below the initial budget plan's $192 million estimate. The Province now does not expect to balance the budget until FY21/22, a year later than previously planned, while cumulative deficits between FY18/19 and FY20/21 are expected to run $272 million larger than estimated a year ago. This comes despite firmer underlying economic momentum, which will help hold net debt steady at 40% of GDP.

New Brunswick

Population: 760,700
GDP/Capita: $44,500
Party in Power: Liberals
Premier: Hon. Brian Gallant
Finance Minister: Hon. Cathy Rogers

Legislative Seats:

Liberals	25
PC	22
Green Party	1
Vacant	1

Next election September 2018

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	1.9	1.0	0.7
Employment	(% chng)	0.4	0.1	0.1
Jobless Rate	(%)	8.1	8.5	8.4
Housing Starts	(000s)	2.3	2.3	1.6
Cons. Prices	(% chng)	2.3	2.4	2.1
Fiscal Situation		FY17/18	FY18/19	
Balance	(C$ mlns)	-115	-189	
	(% of GDP)	-0.3	-0.5	
Net Debt	(C$ mlns)	14,099	14,472	
	(% of GDP)	39.9	39.9	

Shading: forecast [1] 2017 : by industry

Nova Scotia

Economic growth looks to moderate in Nova Scotia this year, with real GDP likely to grow a more trend-like 0.7%, down from 1.2% in 2017. While still sluggish from a national perspective, two-year average growth would be at the high end of the range seen since the financial crisis, with a demographic boost providing support.

The Halifax Shipyard is now busy with the $25 billion contract to build combat ships for the Royal Canadian Navy (through 2030) well underway. Other major **capital projects** such as the Nova Centre and Maritime Link have also supported growth, but their contributions will begin to fade—capital spending intentions are down 8.4% for 2018. **Residential construction** activity has picked up, with the number of units under construction in Halifax at the highest level in 40 years. This is partly in response to **firmer population growth** through two channels: a reversal of outflows previously headed to Alberta, and a big jump in international immigration, as seen across much of the Atlantic region.

Labour market momentum has improved, with employment growth accelerating early in 2018, led by the private sector. The jobless rate is finally breaking below the 8.0%-to-9.0% range, and remains favourable versus its Atlantic Canada peers.

The Province of Nova Scotia is projecting a **$29.4 million surplus in FY18/19** (0.1% of GDP), roughly in-line with the $23.2 million now expected in FY17/18. That would mark the third straight year in the black as the Province continues to operate within its means. Nova Scotia continues to project small surpluses through FY21/22, and net debt will continue to gradually fall as a share of GDP, down to 34.2% this fiscal year.

Nova Scotia

Population: 957,500
GDP/Capita: $43,300
Party in Power: Liberals
Premier: Hon. Stephen McNeil
Finance Minister: Hon. Karen Casey

Legislative Seats:

Liberals	27
PC	16
NDP	7
Vacant	1

Majority government since May, 2017

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	1.2	0.7	0.9
Employment	(% chng)	0.7	1.4	0.3
Jobless Rate	(%)	8.4	7.7	7.6
Housing Starts	(000s)	4.0	4.0	3.6
Cons. Prices	(% chng)	1.1	1.8	2.0
Fiscal Situation		FY17/18	FY18/19	
Balance	(C$ mlns)	23	29	
	(% of GDP)	0.1	0.1	
Net Debt	(C$ mlns)	15,051	15,171	
	(% of GDP)	34.9	34.2	

Shading: forecast [1] 2017 : by industry

Prince Edward Island

The **PEI economy is running at a strong pace**, but real GDP growth is expected to cool to 1.4% this year after a 3.2% jump in 2017. Sturdy U.S. economic growth and a population boost should continue to offset public-sector restraint, leaving the province to grow roughly at potential over the near term.

Exports are rising at a solid clip, led by electronics and electrical equipment, as well as past gains in aerospace and transportation equipment. U.S. demand is expected to remain firm, and the Canadian dollar is supportive of **tourism** activity at recent levels.

Public-sector restraint is likely to remain a drag on growth in the year ahead. After rising solidly the last two years, **public-sector capital spending** is expected to fall 15% in 2018—transportation infrastructure spending in particular will be cut trimmed.

Population growth is running at a very strong 1.8% y/y pace. International immigration has accelerated recently, but net interprovincial migration remains a modest drag. **Employment** growth has been a bright spot, rising to a record level early in 2018, punching though the previous high set in 2013. That has helped keep the jobless rate steady around 10% as new labour force growth is getting absorbed.

The Province of Prince Edward Island is projecting a $**1.5 million surplus** in FY18/19 (effectively balanced as a share of GDP), little changed from the $1.2 million surplus estimated for FY17/18.

Prince Edward Island

Population: 152,800
GDP/Capita: $42,900
Party in Power: Liberals
Premier:
Hon. Wade MacLauchlan
Finance Minister:
Hon. J. Heath MacDonald

Legislative Seats:

Liberal	16
PC	8
Green	2
Independent	1

Majority government since May 2015

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	3.2	1.4	1.1
Employment	(% chng)	3.0	2.1	0.2
Jobless Rate	(%)	9.8	10.3	10.3
Housing Starts	(000s)	1.0	0.8	0.6
Cons. Prices	(% chng)	1.8	1.9	1.8
Fiscal Situation		FY17/18	FY18/19	
Balance	(C$ mlns)	1	2	
	(% of GDP)	0.0	0.0	
Net Debt	(C$ mlns)	2,220	2,239	
	(% of GDP)	33.9	33.1	

Shading: forecast [1] 2017 : by industry

Newfoundland and Labrador

Newfoundland & Labrador's economy continues to struggle, despite a rebound in oil prices, amid fading near-term production and investment. Real GDP is expected to hold flat this year after a 2.1% advance in 2017, and growth will remain muted over the next few years.

The **oil sector** makes up roughly 22% of provincial GDP and more than 7% of employment—both just slightly smaller than in Alberta. As a result, incomes have been hit hard in the province, though the recent rally in Brent prices has been supportive. Production has faded after peaking in 2007, but Hebron began producing late in 2017, and should support higher output as production ramps up to 150,000 bpd over the coming years. Longer-term potential in the sector is solid, but near-term **capital investment** is facing a lull, with other projects such as Muskrat Falls also winding down.

Employment continues to fall, now at levels previously seen in 2010. That has left the unemployment rate at the highest level in the country, around 14%, with one difference versus its Atlantic peers being a still-declining population. **Retail sales** and **home prices** have underperformed as a result.

The Province of Newfoundland & Labrador is projecting a **$683 million deficit in FY18/19** (2.1% of GDP), down from the $812 billion now expected for FY17/18. The latter is a touch deeper than expected in the budget a year ago, but is also improved from more than $2 billion in FY15/16, when the fiscal situation was getting critical. Looking ahead, the Province expects the deficit to average $581 million in the subsequent two years, before returning to balance in FY22/23. Spending restraint will remain the key focus after a number of tax measures were introduced two years ago, while oil prices are expected to trend gradually higher over the forecast horizon after averaging $63 (Brent crude) this coming fiscal year. Small contingencies are built into the fiscal plan.

Newfoundland & Labrador

Population: 527,600
GDP/Capita: $56,600
Party in Power: Liberals
Premier:
Hon. Dwight Ball
Finance Minister:
Hon. Tom Osborne

Legislative Seats:

Liberal	30
PC	7
NDP	2
Independent	1

Majority government since November 2015

Economic Outlook		2017	2018	2019
Real GDP[1]	(% chng)	2.1	0.0	0.5
Employment	(% chng)	-3.7	-0.2	0.0
Jobless Rate	(%)	14.7	14.2	13.8
Housing Starts	(000s)	1.4	1.3	1.3
Cons. Prices	(% chng)	2.4	2.2	2.0
Fiscal Situation		FY17/18	FY18/19	
Balance	(C$ mlns)	-812	-683	
	(% of GDP)	-2.5	-2.1	
Net Debt	(C$ mlns)	14,638	15,528	
	(% of GDP)	45.2	47.3	

Shading: forecast [1] 2017 : by industry

History of Canadian Fiscal Balances

($ millions)	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18e	18/19f
BC	2,746	73	(1,812)	(246)	(1,841)	(1,147)	316	1,664	811	2,737	151	219
Alberta	2,447	(931)	(476)	(2,262)	(114)	(3,099)	(302)	1,115	(6,442)	(10,784)	(9,066)	(8,802)
Sask.	1,873	2,968	(409)	(13)	(105)	37	589	62	(1,520)	(1,218)	(595)	(365)
Manitoba	558	449	(185)	(181)	(1,001)	(560)	(522)	(430)	(846)	(764)	(726)	(521)
Ontario	600	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)	(10,315)	(3,515)	(991)	1	(6,700)
Quebec	1,650	(1,258)	(2,940)	(2,390)	(1,788)	(2,515)	(1,703)	136	3,644	4,362	3,142	904
NB	241	(152)	(696)	(617)	(245)	(533)	(600)	(361)	(261)	(231)	(115)	(189)
NS	419	26	(269)	585	(259)	(304)	(677)	(144)	(13)	150	23	29
PEI	(4)	(31)	(74)	(63)	(84)	(80)	(46)	(20)	(13)	(1)	1	2
NL	1,421	2,350	(33)	594	974	(195)	(389)	(1,006)	(2,207)	(1,148)	(812)	(683)
Provinces	11,951	(2,915)	(26,156)	(18,604)	(17,432)	(17,616)	(13,787)	(9,299)	(10,362)	(7,888)	(7,996)	(16,106)
Federal	9,597	(5,755)	(55,598)	(33,372)	(26,279)	(18,415)	(5,150)	1,911	(987)	(17,770)	(19,400)	(18,100)
Total	21,548	(8,670)	(81,754)	(51,976)	(43,711)	(36,031)	(18,937)	(7,388)	(11,349)	(25,658)	(27,396)	(34,206)
(% of GDP)												
BC	1.4	0.0	(0.9)	(0.1)	(0.8)	(0.5)	0.1	0.7	0.3	1.0	0.1	0.1
Alberta	0.9	(0.3)	(0.2)	(0.8)	(0.0)	(1.0)	(0.1)	0.3	(1.9)	(3.4)	(2.7)	(2.5)
Sask.	3.6	4.4	(0.7)	(0.0)	(0.1)	0.0	0.7	0.1	(1.9)	(1.6)	(0.8)	(0.4)
Manitoba	1.1	0.9	(0.4)	(0.3)	(1.8)	(0.9)	(0.8)	(0.7)	(1.3)	(1.1)	(1.0)	(0.7)
Ontario	0.1	(1.1)	(3.2)	(2.2)	(2.0)	(1.4)	(1.5)	(1.4)	(0.5)	(0.1)	0.0	(0.8)
Quebec	0.5	(0.4)	(0.9)	(0.7)	(0.5)	(0.7)	(0.5)	0.0	0.9	1.1	0.8	0.2
NB	0.9	(0.5)	(2.4)	(2.0)	(0.8)	(1.7)	(1.9)	(1.1)	(0.8)	(0.7)	(0.3)	(0.5)
NS	1.2	0.1	(0.8)	1.6	(0.7)	(0.8)	(1.8)	(0.4)	(0.0)	0.4	0.1	0.1
PEI	(0.1)	(0.7)	(1.5)	(1.2)	(1.5)	(1.4)	(0.8)	(0.3)	(0.2)	(0.0)	0.0	0.0
NL	4.9	7.4	(0.1)	2.0	2.9	(0.6)	(1.1)	(2.9)	(7.3)	(3.7)	(2.5)	(2.1)
Provinces	0.8	(0.2)	(1.7)	(1.1)	(1.0)	(1.0)	(0.7)	(0.5)	(0.5)	(0.4)	(0.4)	(0.7)
Federal	0.6	(0.3)	(3.5)	(2.0)	(1.5)	(1.0)	(0.3)	0.1	(0.0)	(0.9)	(0.9)	(0.8)
Total	1.4	(0.5)	(5.2)	(3.1)	(2.5)	(2.0)	(1.0)	(0.4)	(0.6)	(1.3)	(1.3)	(1.6)

( ) = deficit   e = estimate   f = forecast

Provincial Economic Summary

	BC	Alberta	Sask.	Manitoba	Ontario	Quebec	NB	NS	PEI	NL	Canada
Real GDP Growth (chain-weighted : year/year % change)											
2017 [1]	3.9	4.9	2.9	2.9	2.8	3.1	1.9	1.2	3.2	2.1	3.0
2018 f	2.4	2.2	1.5	2.0	2.0	2.2	1.0	0.7	1.4	0.0	2.0
2019 f	2.1	2.1	1.9	1.8	1.9	1.7	0.7	0.9	1.1	0.5	1.8
Employment Growth (year/year % change)											
2017	3.7	1.0	-0.1	1.6	1.8	2.2	0.4	0.7	3.0	-3.7	1.9
2018 f	1.2	1.9	0.3	0.1	1.6	1.7	0.1	1.4	2.1	-0.2	1.5
2019 f	1.1	1.3	0.7	0.6	1.2	0.9	0.1	0.3	0.2	0.0	1.0
Unemployment Rate (percent)											
2017	5.1	7.8	6.3	5.4	6.0	6.0	8.0	8.4	9.9	14.7	6.3
2018 f	4.7	6.3	5.6	5.9	5.4	5.4	8.5	7.7	10.3	14.2	5.7
2019 f	4.6	5.7	5.2	5.8	5.2	5.2	8.4	7.6	10.3	13.8	5.5
Housing Starts (thousands)											
2017	43.5	29.3	5.0	7.6	80.1	46.1	2.3	4.0	1.0	1.4	220.3
2018 f	38.0	27.0	4.6	5.5	80.5	46.0	2.3	4.0	0.8	1.3	220.5
2019 f	37.0	30.0	5.0	6.0	71.5	38.0	1.6	3.6	0.6	1.3	210.4
Consumer Prices (year/year % change)											
2017	2.1	1.5	2.3	1.6	1.7	1.1	2.3	1.1	1.8	2.4	1.6
2018 f	2.2	2.0	1.9	2.3	2.5	2.1	2.4	1.8	1.9	2.2	2.3
2019 f	2.2	2.1	1.9	2.1	2.2	2.0	2.1	2.0	1.8	2.0	2.1

[1] 2017 provincial GDP by industry   f = forecast

Provincial Economic Indicators

(3-month m.a. : year/year % change)

	BC	Alberta	Sask.	Manitoba	Ontario	Quebec	NB	NS	PEI	NL	Canada
Retail Sales											
Dec 17	9.7	6.3	5.4	8.3	6.9	6.1	8.8	8.0	7.2	4.4	7.1
Jan 18	6.4	4.2	3.2	5.2	5.2	4.4	6.3	5.5	6.2	0.2	5.0
Feb 18	5.2	2.2	1.9	1.3	4.2	3.8	4.1	7.2	7.4	-1.6	3.8
Manufacturing Shipments											
Dec 17	7.9	13.4	10.3	5.1	-0.4	7.6	30.6	10.0	7.0	16.3	5.0
Jan 18	6.8	12.3	10.4	3.6	0.5	5.6	22.1	10.0	10.1	7.8	4.5
Feb 18	6.6	10.7	6.9	3.6	0.3	5.0	12.6	14.8	14.6	2.5	3.8
Exports											
Dec 17	-1.9	13.4	-3.5	8.4	-4.2	2.0	48.6	0.5	2.0	-2.9	1.8
Jan 18	-2.4	13.9	-4.7	4.7	-1.7	-1.0	23.7	-0.9	-0.8	-2.0	2.0
Feb 18	1.6	10.0	-4.1	3.4	-2.3	0.0	16.5	6.5	5.4	15.2	1.6
Employment Growth											
Jan 18	3.1	2.0	-0.3	1.6	2.2	2.0	0.0	0.7	3.1	-1.2	2.0
Feb 18	2.4	2.1	-0.4	1.2	1.9	1.9	0.5	1.4	3.2	-0.9	1.8
Mar 18	1.8	1.9	-0.4	0.7	1.6	1.8	0.2	1.3	3.0	-0.9	1.6