# Provincial Monitor

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An update on provincial economic and fiscal matters
Autumn 2018

## Oil and Autos Mark the Landscape

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The Canadian economy has begun to moderate, with growth expected at just below 2% in the second half of 2018, highlighting a shift down toward potential. Across the country, we see two major themes playing out through the end of 2018 and into 2019. First, oil prices have again become a downside risk for the three producing provinces. Elsewhere, most provinces are coming off very strong runs and are in the process of slowing toward potential growth, much like we're seeing at the national level.

**British Columbia** is expected to remain right near the front of the pack, but growth likely downshifted to 2.3% this year after a four-year run averaging 3.2%. Growth should get a boost again in 2019 as a major LNG project breaks ground. **Alberta** will see one of the more noteworthy slowdowns, slipping to 2.4% this year and 1.2% in 2019, with low Canadian oil prices impacting capital spending plans, along with a mandated production cut. **Saskatchewan** looks to be relatively stagnant as well in the mid-1% range. **Manitoba**, however, will likely continue its workmanlike performance, just below its steady 2.3% average pace so far this cycle.

**Ontario** and **Quebec** have been big growth drivers recently, but both have shown signs of moderating. Growth in these two provinces is expected at 2.2% and 2.6%, respectively, this year, down from 2.8% each last year. Next year should see further moderation, with Ontario dipping to 2.0% and Quebec to 1.9%. Still, external macroeconomic conditions—low, albeit rising, interest rates, robust job growth, and demographic momentum—are still very favourable. Also, a key risk in the region has faded with the USMCA and, along with a pro-business policy shift, should support confidence through 2019. This could counter any softness in housing and consumer spending that results from higher interest rates.

Finally, a population boost has helped lift growth in much of **Atlantic Canada** well above potential over the past two years. While that could persist into 2019, we

### Canada

| | |
|---|---|
| Population: | 36,964,000 |
| Area: | 9,984,670 km$^2$ |
| GDP/Capita: | $57,900 |
| Capital: | Ottawa |
| Party in Power: | Liberals |
| Prime Minister: | Rt. Hon. Justin Trudeau |
| Finance Minister: | Hon. Bill Morneau |

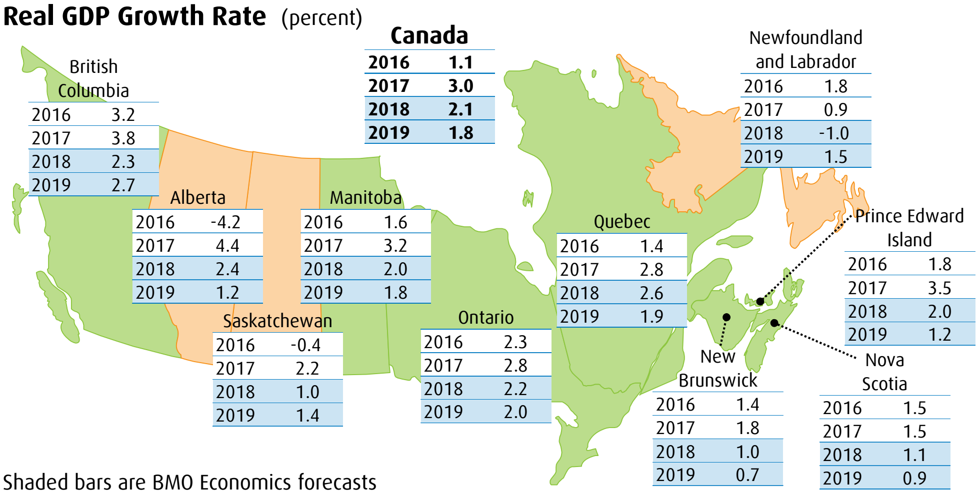
**Legislative Seats:**

| | |
|---|---|
| Liberals | 182 |
| Conservatives | 95 |
| NDP | 41 |
| Bloc Québécois | 10 |
| Green | 1 |
| Ind./Other | 5 |
| Vacant | 4 |

Next election by October 21, 2019

### Provincial GDP

**Real GDP Growth Rate** (percent)




Shaded bars are BMO Economics forecasts

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 immigrants in a relatively weak (albeit tightening) labour market, which would buck the trend of population flows to stronger regional economies. Some provinces in the region are also starting to feel a hangover after a number of major private- and public-sector capital spending projects reached completion.

## Government Finances: Mid-year Updates Roll In

Mid-year fiscal updates have mostly come in and, so far, the momentum has been positive (with one big exception). The **combined provincial deficit is currently pegged at $17.8 billion for FY18/19**, versus $16.1 billion projected in the 2018 spring budget season. That said, all provinces but Ontario are looking at bottom lines that are improved from the budget plan. In Ontario's case, a $7.8 billion deterioration since the spring almost entirely reflects accounting adjustments that did not significantly impact borrowing requirements. The **slide in oil prices**, however, is now a downside risk for Alberta, Saskatchewan and Newfoundland & Labrador heading into 2019.

There have been a few changes to our **Provincial Credit Report Card** over the past three months. Most notably, Ontario's budget plan has weakened slightly because of a much larger reported deficit. But, we've only lowered the rating slightly given that we are still awaiting a full fiscal plan, and suspect there are more in-year savings to be found versus the original 2018 budget. Meantime, the economic assessment for Alberta, Saskatchewan and Newfoundland & Labrador has been lowered owing to downside risk from oil prices for medium-term plans. Quebec, New Brunswick and Nova Scotia continue to see positive overall momentum, thanks to balanced budgets and declining debt ratios. Quebec's mid-year fiscal update confirmed larger surpluses, lower debt and continued fiscal responsibility by the new government—our overall rating now tops that in Ontario. British Columbia remains the best performer in Canada, as confirmed by credit spreads and its AAA rating.

### Fiscal Summary

FY18/19

| | Budget Balance ($ mlns) | % of GDP | Net Debt (% of GDP) |
|---|---|---|---|
| BC | 1,350 | 0.5 | 14.5 |
| AB | (7,512) | (2.2) | 8.8 |
| SK | (348) | (0.4) | 14.8 |
| MB | (521) | (0.7) | 34.3 |
| ON | (14,544) | (1.7) | 40.5 |
| QC | 4,501 | 1.0 | 40.2 |
| NB | (187) | (0.5) | 39.1 |
| NS | 35 | 0.1 | 34.5 |
| PE | 4 | 0.1 | 32.5 |
| NL | (547) | (1.6) | 46.3 |
| **Total** | **(17,769)** | **(0.8)** | **30.7** |

| | S&P | Moody's | DBRS |
|---|---|---|---|
| BC | AAA | Aaa | AA (high) |
| AB | A+ | Aa1[2] | AA[2] |
| 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

Table 1

**Provincial Credit Report Card** (as of December 5, 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 – | ↓ | C+ | ↓ | **B** | **↓** |
| Manitoba | C | ↑ | C | ↓ | B- | — | B+ | — | **B–** | **—** |
| Ontario | C | ↓ | C– | ↓ | B+ | ↑ | A– | — | **B–** | **—** |
| Quebec | A | — | C | ↑ | D+ | ↑ | A– | — | **B** | **↑** |
| New Brunswick | B | ↑ | 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 Manufacturing: GM's Symbolic Closing

The news that GM's venerable plant in Oshawa will be unallocated in 2019, along with four other North American plants, will dig into Ontario's growth over the next year and, while the impact will likely be modest, the symbolism is significant. That is, Ontario (Canada's manufacturing heartland) continues its economic rotation.

The **auto sector plays a significant role** in the province's economy. Directly, auto and parts manufacturing accounts for 2.3% of GDP, but accounting for various indirect effects (think transportation, housing, local retailers, etc.) could bump the real-world impact to 5%-to-10% of the provincial economy.

That said, the **auto sector has been gradually pulling less of the Ontario economy** over time, and the GM Oshawa plant is itself an illustration of that. Since peaking in 2005, real output has contracted by roughly 22%, recovering only about half of the financial crisis declines. That has pulled the sector's weight down from a high of 4.2% at its peak in 1999. In other words, the sector accounts for only about half the weight it did less than 20 years ago. And, the Oshawa plant produced the fewest units in Canada over the past year among the nation's eight assembly plants, including the final finishing and painting of mostly assembled pickups from the U.S.

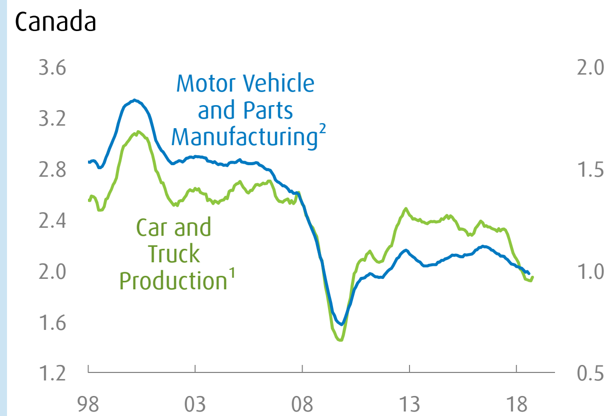
Still, we judge the **full-year growth impact** from the shutdown could be in the 0.3-to-0.5 ppt range for the province.

From an **employment perspective**, the coming job losses shouldn't move the needle on the provincial jobless rate, especially since some current workers may now choose to leave the workforce (though we don't want to downplay the significance in the Oshawa community itself). The income hit looks to be more impactful, as the job losses consist of solid middle-income and some upper-income earners. We estimate the income losses will be around $300 million annually.

While the impact on the Ontario economy will likely be contained overall, the **longer-term symbolism** of this move is significant. That is, Ontario continues to gradually shift away from basic manufacturing, toward higher value-added production/research (true even within the auto industry itself) and into professional services, a trend that began to unfold at the start of the 2000s, and then accelerated through the financial crisis.

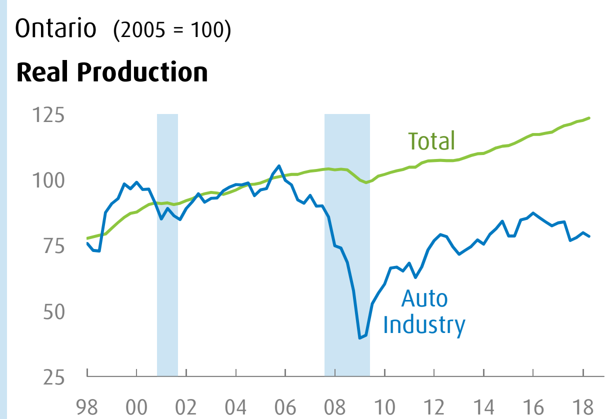
Meantime, this news is yet another illustration of the importance of policy geared toward **business competitiveness**—from all levels of government. On this front, there is optimism that recent (labour reform, cap-and-trade changes and accelerated CCA) and potential future (hydro and tax rates) policy measures will stoke **business confidence**. If recent history is any guide, a similar fiscal policy shift in Quebec drove a strong increase in business confidence, and a significant pickup in economic growth and hiring.

### Auto Sector: Gearing Down




[1] (lhs : mlns of units : 12-mo m.s.) [2] (rhs : % of real GDP : 12-mo m.a.)
Sources: BMO Economics, Haver Analytics

### Autos & Ontario: Smaller Share




Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

## British Columbia

**British Columbia's economy is moderating** along with most of Canada this year, with real GDP growth expected at 2.3%, down from 3.8% in 2017. The economy's run has been stellar, and growth should get another boost in 2019 when the $40 billion **LNG Canada** project breaks ground. Pipeline construction from Dawson to Kitimat will begin in early-2019, and plant construction is expected to peak around 2021 with roughly 10,000 jobs created, providing steady support to growth.

Residential construction, however, continues to fade as the **housing market** adjusts to a wave of measures including provincial policy (increased and expanded foreign buyers' tax, speculation tax on vacant homes), stricter OSFI mortgage-qualification rules and Bank of Canada rate hikes. Sales in Vancouver are running roughly 25% below the 10-year average, and prices for both condos and single-detached homes are correcting.

The **labour market** has been the strongest in Canada over the past three years and, after slowing through the middle of the year, job growth has rebounded firmly. The jobless rate has plunged to a near-record low 4.1%. That has been drawing in **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.

The Province of British Columbia is projecting a **$1.4 billion surplus** (0.5% of GDP) for FY18/19, improved from $219 million in the budget plan. Revenues have been revised up, largely on personal and corporate income tax receipts. The forecast allowance has also been revised up to $950 million (from $350 million), so the underlying improvement has been even larger. Borrowing and net debt are tracking well below the budget plan.

### British Columbia

Population: 4,992,000
GDP/Capita: $56,800
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 | (% chng) | 3.8 | 2.3 | 2.7 |
| Employment | (% chng) | 3.7 | 0.9 | 2.0 |
| Jobless Rate | (%) | 5.1 | 4.7 | 4.2 |
| Housing Starts | (000s) | 43.5 | 39.7 | 37.5 |
| Cons. Prices | (% chng) | 2.1 | 2.6 | 1.9 |
| **Fiscal Situation** | | FY17/18 | | FY18/19 |
| Balance | (C$ mlns) | 301 | | 1,350 |
| | (% of GDP) | 0.1 | | 0.5 |
| Net Debt | (C$ mlns) | 41,869 | | 42,884 |
| | (% of GDP) | 14.8 | | 14.5 |

Shading: forecast

## Alberta

**Alberta's economy is softening** alongside a weaker oil sector backdrop. Real GDP growth likely slowed to 2.4% this year from 4.4% in 2017, and should weaken further to 1.2% in 2019. Weaker WTI prices and a wide **WCS differential** will likely temper capital spending plans, while mandated production cuts will weigh on output. Longer term, with oilsands production still on the rise and as past projects/expansions reach completion, limited **pipeline capacity** will remain a pressing issue. We judge that recent developments in the oil market will cut roughly 1 ppt from 2019 growth.

The **housing market** remains weak 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** is steady, with employment growth running around 2% y/y. The jobless rate, however, has moved back above 7% alongside a jump in labour supply. Through 2016 and 2017, the province saw a wave of net interprovincial outflows as relative economic prospects improved in other regions and wage differentials (previously widely in Alberta's favour) narrowed. These flows appear to be balancing out now with growth rates across the country converging.

The Province of Alberta is projecting a **$7.5 billion deficit** (2.2% of GDP) for FY18/19. That marks a moderate improvement from a $7.8 billion shortfall expected in Q1, and is now $1.3 billion better than the budget projection. A $500 million risk adjustment remains in place. The real issue is how next year's balance looks if this oil price environment persists into 2019—the mid-year update didn't provide such an outlook.

### Alberta

Population: 4,307,000
GDP/Capita: $79,300
Party in Power: New Democrats
Premier: Hon. Rachel Notley
Finance Minister: Hon. Joe Ceci

Legislative Seats:

| | |
|---|---|
| NDP | 53 |
| UCP | 26 |
| Alberta Party | 3 |
| Liberal | 1 |
| PC | 1 |
| FCP | 1 |
| Independent | 2 |

Next election by: May, 2019

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 4.4 | 2.4 | 1.2 |
| Employment | (% chng) | 1.0 | 1.7 | 0.8 |
| Jobless Rate | (%) | 7.8 | 6.8 | 7.0 |
| Housing Starts | (000s) | 29.3 | 28.4 | 27.0 |
| Cons. Prices | (% chng) | 1.5 | 2.5 | 1.6 |
| **Fiscal Situation** | | FY17/18 | | FY18/19 |
| Balance | (C$ mlns) | -8,023 | | -7,512 |
| | (% of GDP) | -2.4 | | -2.2 |
| Net Debt | (C$ mlns) | -19,344 | | 30,510 |
| | (% of GDP) | -5.8 | | 8.8 |

Shading: forecast

## Saskatchewan

**Saskatchewan's economy remains subdued**, as the effect of the oil price downturn, and recent slide, lingers. Real GDP is expected to advance a moderate 1.0% this year, underperforming the national average for a fifth straight year. Growth is expected to remain subdued at 1.4% next year.

The **oil sector** has been retrenching, but the Province expects relatively stable production over the near term. **Potash** production is rising at a steady clip. Overall resource-sector capital investment likely fell for a fourth straight year in 2018. **Crop production** has looked relatively steady, with wheat seeing a solid increase in harvested area, but a lower yield in 2018.

The **labour market** remains sluggish, with employment little-changed from five years ago, despite picking up in recent months. That has held the jobless rate (6.2% as of October) above the national average for the first time since the late-1990s. **Population growth** also continues to moderate, to 0.8% y/y from 1.6% as recently as four years ago—the province is again losing migrants to other regions.

With slower demographic demand, **housing starts** have slowed to the lowest level since the financial crisis, in contrast to gains across most other regions. **Home prices** continue to drift steadily lower in Regina and Saskatoon, with the number of unabsorbed new units very slow to normalize. Meantime, the 10 months' of supply on the resale market is the biggest overhang in at least 15 years—as such, price weakness will likely continue.

The Province of Saskatchewan is projecting a **$348 million deficit** (0.4% of GDP) for FY18/19, a touch lower than the $365 million penned in the original budget plan. While not projected in the mid-year update, the Finance Minister reiterated plans to balance the budget next fiscal year.

### Saskatchewan

Population: 1,162,000
GDP/Capita: $68,700
Party in Power: Saskatchewan Party
Premier: Hon. Scott Moe
Finance Minister: Hon. Donna Harpauer

Legislative Seats:
Sask. Party 48
NDP 13

Next election by: November, 2020

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 2.2 | 1.0 | 1.4 |
| Employment | (% chng) | -0.1 | 0.1 | 0.7 |
| Jobless Rate | (%) | 6.3 | 6.3 | 6.2 |
| Housing Starts | (000s) | 5.0 | 3.8 | 3.7 |
| Cons. Prices | (% chng) | 1.7 | 2.2 | 1.5 |
| **Fiscal Situation** | | | FY17/18 | FY18/19 |
| Balance | (C$ mlns) | | -303 | -348 |
| | (% of GDP) | | -0.4 | -0.4 |
| Net Debt | (C$ mlns) | | 11,288 | 12,254 |
| | (% of GDP) | | 14.2 | 14.8 |

Shading: forecast

## Manitoba

**Manitoba continues to grow at a steady pace**, with real GDP on pace to rise 2.0% this year, down from a solid 3.2% in 2017, which was boosted by residential construction. Manitoba's diverse manufacturing base and sturdy service sector also continue to churn out some of the steadiest growth in Canada, which should continue at 1.8% in 2019.

**Manufacturing** has had a reasonable run since 2010, and should continue to benefit from solid U.S. demand and USMCA clarity. That said, Midwest factory activity is now coming off the boil. The **labour market** is sturdy, with employment growth trending around 1.3% on average. The jobless rate is bouncing around 6%, roughly in-line with the national average, 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. Indeed, demographic demand supported a strong run in housing stats through early-2018, but that momentum has begun to level off.

The Province of Manitoba is projecting a **$521 million summary budget deficit** in FY18/19, improved from the $695 million reported for FY17/18. That weighs in at 0.7% of GDP, still one of the chunkier shortfalls on the provincial landscape. Net debt continues to rise, on pace to reach 34.3% of GDP this fiscal year.

### Manitoba

Population: 1,352,000
GDP/Capita: $53,100
Party in Power: Progressive Conservatives
Premier: Hon. Brian Pallister
Finance Minister: Hon. Scott Fielding

Legislative Seats:
PC 38
NDP 12
Liberal 4
Independent 3

Next election: October, 2020

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 3.2 | 2.0 | 1.8 |
| Employment | (% chng) | 1.6 | 0.5 | 0.7 |
| Jobless Rate | (%) | 5.4 | 6.0 | 5.6 |
| Housing Starts | (000s) | 7.6 | 7.3 | 6.8 |
| Cons. Prices | (% chng) | 1.6 | 2.5 | 1.7 |
| **Fiscal Situation** | | | FY17/18 | FY18/19 |
| Balance | (C$ mlns) | | -695 | -521 |
| | (% of GDP) | | -1.0 | -0.7 |
| Net Debt | (C$ mlns) | | 24,365 | 25,044 |
| | (% of GDP) | | 34.3 | 34.3 |

Shading: forecast

## Ontario

**Ontario's economy is moderating** after a powerful multi-year run. Real GDP is expected to grow 2.2% this year, down from a 2.5% average pace between 2014 and 2017—that was the best such run in 15 years. The economy will likely soften further to 2.0% in 2019, but that would remain roughly in-line with potential and reflect performance in-line with the national average.

After rising strongly through much of the cycle, **export volumes** have levelled off since early 2016. Longer-term issues remain 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. That said, **USMCA** clarity, **accelerated CCA** allowances and a business-friendly policy shift should support business confidence and investment.

The **housing market** is stabilizing after a wave of recent policy measures (15% tax on non-resident buyers and OSFI rules) and amid Bank of Canada rate hikes. Toronto detached home prices are down roughly 10% from their peak, but condo prices remain at record levels. The **labour market** is solid, with employment growth levelling off in the 1%-to-2% y/y range. The jobless rate is just 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 **$14.5 billion deficit for FY18/19** (1.7% of GDP), a shade smaller than the $15.0 billion baseline reported in September (incorporating Commission recommendations). In a nutshell, the Province has given up $2.7 billion in revenue by cancelling cap-and-trade and bringing in some other tax cuts, but has more than offset that by scaling back some of the spending announced in the prior government's 2018 budget. There are no fiscal plan details beyond the current year.

### Ontario

Population: 14,323,000
GDP/Capita: $58,900
Party in Power: PC
Premier: Hon. Doug Ford
Finance Minister: Hon. Victor Fideli

Legislative Seats:

| | |
|---|---|
| PC | 75 |
| NDP | 40 |
| Liberal | 7 |
| Green | 1 |
| Independent | 1 |

Next election: June, 2022

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 2.8 | 2.2 | 2.0 |
| Employment | (% chng) | 1.8 | 1.6 | 1.4 |
| Jobless Rate | (%) | 6.0 | 5.6 | 5.4 |
| Housing Starts | (000s) | 80.1 | 75.6 | 73.0 |
| Cons. Prices | (% chng) | 1.7 | 2.3 | 1.6 |
| **Fiscal Situation** | | | FY17/18 | FY18/19 |
| Balance | (C$ mlns) | | -3,700 | -14,544 |
| | (% of GDP) | | -0.4 | -1.7 |
| Net Debt | (C$ mlns) | | 323,800 | 347,055 |
| | (% of GDP) | | 39.2 | 40.5 |

Shading: forecast

## Quebec

**Quebec has posted its best economic performance** in 15 years. Real GDP grew 2.8% last year, up from a 1.3% average in the four prior years. Growth has begun to moderate, likely softening to 2.6% this year, before fading further to 1.9% in 2019—the latter would still be solidly above potential for the province.

Real **business investment** has accelerated sharply after a multi-year lull. Confidence is being helped by a stable political backdrop (despite the recent change) and much-improved government finances. **Net export** momentum, however, has faded in recent quarters. The **labour market** performance has been solid, with Quebec posting some of the best job growth in Canada and the jobless rate falling below the national average—it is currently trending just above 5%, near a record low.

**Montreal's housing market** sees continued momentum, and remains arguably the strongest in Canada—solid demand fundamentals, favourable affordability and a spillover of nonresident activity have all helped. Benchmark prices are running at a solid 6.5% y/y pace, and prices should be able to rise further despite higher interest rates. **Residential construction** has also been a recent boon for the economy.

The Province of Quebec is projecting a **$4.5 billion surplus in FY18/19** (1% of GDP), in the first update since the new government took office. This is much larger than the $1.9 billion surplus projected in the August pre-election framework, as a stronger economy has lifted revenues almost across the board. That comes despite meaningful tax relief (accelerated CCA for business investment) and child benefit increases. The Province will use $8 billion of Generations Fund savings for early debt repayment.

### Quebec

Population: 8,390,000
GDP/Capita: $49,700
Party in Power: CAQ
Premier: Hon. Francois Legault
Finance Minister: Hon. Eric Girard

Legislative Seats:

| | |
|---|---|
| CAQ | 74 |
| Liberal | 29 |
| PQ | 10 |
| QS | 10 |
| Other/Vacant | 2 |

Next election: October, 2022

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 2.8 | 2.6 | 1.9 |
| Employment | (% chng) | 2.2 | 0.9 | 0.4 |
| Jobless Rate | (%) | 6.0 | 5.4 | 5.2 |
| Housing Starts | (000s) | 46.1 | 45.6 | 46.0 |
| Cons. Prices | (% chng) | 1.1 | 1.7 | 1.6 |
| **Fiscal Situation** | | | FY17/18 | FY18/19 |
| Balance | (C$ mlns) | | 4,915 | 4,501 |
| | (% of GDP) | | 1.2 | 1.0 |
| Net Debt | (C$ mlns) | | 176,543 | 175,228 |
| | (% of GDP) | | 42.3 | 40.2 |

Shading: forecast

## New Brunswick

**The New Brunswick economy has had a solid run,** with real GDP growth averaging 1.6% in 2016 and 2017 alongside a population boost. Growth likely moderated to 1.0% this year, and should fade back toward potential around 0.7% in 2019.

**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** could be challenged by a peaking (but stable) 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. The unemployment rate has trended down to below 8%, but that only comes alongside a gradual decline in the labour force. **Demographics** remain a major challenge, as the province continues to see net outward migration and an aging population left behind. However, population growth has been running at a 27-year high, spurred by a jump in international immigration, though still subdued at around 0.5% y/y.

The Province of New Brunswick's **FY17/18 public accounts** came in better than expected, with a $67 million surplus improved from a $115 million deficit expected in the spring—stronger revenues drove much of the improvement. New Brunswick has shown some of the better fiscal momentum recently. Still, as of the 2018 budget, the Province did not plan to balance the books until FY21/22, so we'll see how much of the recent momentum holds through the **fiscal plan**. Encouragingly, net debt in FY17/18 fell as a share of GDP for a second consecutive year.

### New Brunswick

Population: 770,600
GDP/Capita: $46,100
Party in Power: Liberals
Premier: Hon. Blaine Higgs
Finance Minister: Hon. Ernie Steeves

Legislative Seats:

| | |
|---|---|
| PC | 22 |
| Liberal | 21 |
| Green Party | 3 |
| People's Alliance | 3 |

Minority gov't since September 2018

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 1.8 | 1.0 | 0.7 |
| Employment | (% chng) | 0.4 | 0.5 | 0.4 |
| Jobless Rate | (%) | 8.1 | 7.9 | 7.4 |
| Housing Starts | (000s) | 2.3 | 2.3 | 2.8 |
| Cons. Prices | (% chng) | 2.3 | 2.2 | 1.6 |
| **Fiscal Situation** | | FY17/18 | | FY18/19 |
| Balance | (C$ mlns) | 67 | | -187 |
| | (% of GDP) | 0.2 | | -0.5 |
| Net Debt | (C$ mlns) | 13,926 | | 14,472 |
| | (% of GDP) | 38.6 | | 39.1 |

Shading: forecast

## Nova Scotia

**Economic growth looks to moderate in Nova Scotia this year**, with real GDP likely to come in at 1.1% this year, down from 1.5% in 2017. Growth should fade further to 0.9% in 2019, consistent with the broader theme of most provinces gearing down toward potential. Keep in mind that the province has just come off its best two-year run (averaging 1.5%) since emerging from the financial crisis—demographics and nonresidential investment added a boost.

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 recently, but their contributions have begun to fade—capital spending is tracking down about 8% for 2018. **Residential construction** activity has been strong, with the number of units under construction in Halifax at a record high. 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 been solid, with employment growth accelerating since mid-2017, led by construction and services. The jobless rate is hovering around 8%, near a cycle low outside a brief outsized decline earlier in 2018.

The Province of Nova Scotia is projecting a **$34.5 million surplus in FY18/19** (0.1% of GDP), modestly higher than the $29.4 million estimated in the 2018 budget. That would mark the third straight year in the black, and follows a better-than-expected $230 million surplus reported in the FY17/18 public accounts. Nova Scotia continues to project small surpluses through FY21/22, and net debt will gradually fall as a share of GDP.

### Nova Scotia

Population: 960,000
GDP/Capita: $45,400
Party in Power: Liberals
Premier: Hon. Stephen McNeil
Finance Minister: Hon. Karen Casey

Legislative Seats:

| | |
|---|---|
| Liberals | 27 |
| PC | 17 |
| NDP | 6 |
| Vacant | 1 |

Next election by June, 2022

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 1.5 | 1.1 | 0.9 |
| Employment | (% chng) | 0.7 | 1.3 | 0.5 |
| Jobless Rate | (%) | 8.4 | 7.7 | 7.6 |
| Housing Starts | (000s) | 4.0 | 5.3 | 5.8 |
| Cons. Prices | (% chng) | 1.1 | 2.2 | 1.6 |
| **Fiscal Situation** | | FY17/18 | | FY18/19 |
| Balance | (C$ mlns) | 230 | | 35 |
| | (% of GDP) | 0.5 | | 0.1 |
| Net Debt | (C$ mlns) | 14,959 | | 15,171 |
| | (% of GDP) | 35.0 | | 34.5 |

Shading: forecast

## Prince Edward Island

The **PEI economy has run at a very solid pace**, but real GDP growth likely cooled to 2.0% this year after a 3.5% jump in 2017, and should soften further to 1.2% in 2019. 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 medium 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** will likely fall 15% in 2018—transportation infrastructure spending in particular will be trimmed.

**Population growth** is running at a very strong 1.8% y/y pace. International immigration has accelerated recently, and net interprovincial migration has largely levelled off. **Employment** has been a bright spot, rising to a record level through October, with job growth running above 3% y/y. That has helped pull the jobless rate to a record low 7.2%, the lowest in Atlantic Canada.

The Province of Prince Edward Island is projecting a **$4.4 million surplus** in FY18/19 (effectively balanced as a share of GDP), up from the $1.5 million estimated in the budget plan.

### Prince Edward Island

Population: 153,200
GDP/Capita: $43,700
Party in Power: Liberals
Premier:
Hon. Wade MacLauchlan
Finance Minister:
Hon. J. Heath MacDonald

Legislative Seats:

| | |
|---|---|
| Liberal | 16 |
| PC | 8 |
| Green | 2 |
| Independent | 1 |

Next election: October, 2019

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 3.5 | 2.0 | 1.2 |
| Employment | (% chng) | 3.0 | 3.1 | 1.1 |
| Jobless Rate | (%) | 9.8 | 9.4 | 8.3 |
| Housing Starts | (000s) | 1.0 | 0.9 | 0.9 |
| Cons. Prices | (% chng) | 1.8 | 2.3 | 1.5 |
| **Fiscal Situation** | | | FY17/18 | FY18/19 |
| Balance | (C$ mlns) | | 1 | 4 |
| | (% of GDP) | | 0.0 | 0.1 |
| Net Debt | (C$ mlns) | | 2,135 | 2,239 |
| | (% of GDP) | | 32.1 | 32.5 |

Shading: forecast

## Newfoundland and Labrador

**Newfoundland & Labrador's economy continues to struggle**, and the recent weakness in oil prices will dampen income growth, as near-term production and investment fade. Real GDP is expected to fall 1.0% this year after a 0.9% advance in 2017, and growth will remain muted over the next few years.

The **oil sector** makes up roughly 20% of provincial GDP and more than 7% of employment—both just slightly smaller than in Alberta. As a result, the recent downturn in oil prices could hit incomes, and negates what was a positive story developing through much of the year. Production has faded after peaking in 2007, but Hebron began producing late in 2017, and should support higher output as it 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** has stabilized this year, but is still about 7% below the 2013 peak. That has left the unemployment rate at the highest level in the country, spending much of the year in the 14%-to-15% range, 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 **$547 million deficit for FY18/19**, smaller than the $683 million estimated in the budget plan. Borrowing requirements are also running $200 million lower, at $1.25 billion for the fiscal year. The improvement comes alongside a $130 million revenue upgrade, as the assumption for oil prices was revised up to $74 from $63 in the budget (keep in mind that the Province's revenues are tied to Brent crude, and they are not impacted by the WCS discount). That said, the oil price forecast upgrade already looks too aggressive given recent weakness, leaving downside risk through the remainder of the fiscal year.

### Newfoundland & Labrador

Population: 525,400
GDP/Capita: $61,300
Party in Power: Liberals
Premier:
Hon. Dwight Ball
Finance Minister:
Hon. Tom Osborne

Legislative Seats:

| | |
|---|---|
| Liberal | 27 |
| PC | 7 |
| NDP | 2 |
| Independent | 3 |
| Vacant | 1 |

Next election: October, 2019

| Economic Outlook | | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Real GDP | (% chng) | 0.9 | -1.0 | 1.5 |
| Employment | (% chng) | -3.7 | 0.4 | 0.9 |
| Jobless Rate | (%) | 14.7 | 14.3 | 13.4 |
| Housing Starts | (000s) | 1.4 | 1.6 | 1.3 |
| Cons. Prices | (% chng) | 2.4 | 1.8 | 1.6 |
| **Fiscal Situation** | | | FY17/18 | FY18/19 |
| Balance | (C$ mlns) | | -911 | -547 |
| | (% of GDP) | | -2.8 | -1.6 |
| Net Debt | (C$ mlns) | | 14,674 | 15,528 |
| | (% of GDP) | | 44.4 | 46.3 |

Shading: forecast

## 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 | 301 | 1,350 |
| Alberta | 2,447 | (931) | (476) | (2,262) | (114) | (3,099) | (302) | 1,115 | (6,442) | (10,784) | (8,023) | (7,512) |
| Sask. | 1,873 | 2,968 | (409) | (13) | (105) | 37 | 589 | 62 | (1,520) | (1,218) | (303) | (348) |
| Manitoba | 558 | 449 | (185) | (181) | (1,001) | (560) | (522) | (430) | (846) | (764) | (695) | (521) |
| Ontario | 600 | (6,409) | (19,262) | (14,011) | (12,969) | (9,220) | (10,453) | (10,315) | (3,515) | (991) | (3,700) | (14,544) |
| Quebec | 1,650 | (1,258) | (2,940) | (2,390) | (1,788) | (2,515) | (1,703) | 136 | 3,644 | 4,362 | 4,915 | 4,501 |
| NB | 241 | (152) | (696) | (617) | (245) | (533) | (600) | (361) | (261) | (231) | 67 | (187) |
| NS | 419 | 26 | (269) | 585 | (259) | (304) | (677) | (144) | (13) | 150 | 230 | 35 |
| PEI | (4) | (31) | (74) | (63) | (84) | (80) | (46) | (20) | (13) | (1) | 1 | 4 |
| NL | 1,421 | 2,350 | (33) | 594 | 974 | (195) | (389) | (1,006) | (2,207) | (1,148) | (911) | (547) |
| Provinces | 11,951 | (2,915) | (26,156) | (18,604) | (17,432) | (17,616) | (13,787) | (9,299) | (10,362) | (7,888) | (8,118) | (17,769) |
| Federal | 9,597 | (9,116) | (56,368) | (34,953) | (28,033) | (21,293) | (8,050) | (550) | (2,861) | (18,957) | (18,961) | (18,100) |
| Total | 21,548 | (12,031) | (82,524) | (53,557) | (45,465) | (38,909) | (21,837) | (9,849) | (13,223) | (26,845) | (27,079) | (35,869) |
| (% 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 | 0.5 |
| Alberta | 0.9 | (0.3) | (0.2) | (0.8) | (0.0) | (1.0) | (0.1) | 0.3 | (2.0) | (3.6) | (2.4) | (2.2) |
| Sask. | 3.6 | 4.4 | (0.7) | (0.0) | (0.1) | 0.0 | 0.7 | 0.1 | (1.9) | (1.6) | (0.4) | (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) | (0.4) | (1.7) |
| Quebec | 0.5 | (0.4) | (0.9) | (0.7) | (0.5) | (0.7) | (0.5) | 0.0 | 0.9 | 1.1 | 1.2 | 1.0 |
| NB | 0.9 | (0.5) | (2.4) | (2.0) | (0.8) | (1.7) | (1.9) | (1.1) | (0.8) | (0.7) | 0.2 | (0.5) |
| NS | 1.2 | 0.1 | (0.8) | 1.6 | (0.7) | (0.8) | (1.8) | (0.4) | (0.0) | 0.4 | 0.5 | 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 | 0.1 |
| NL | 4.9 | 7.4 | (0.1) | 2.0 | 2.9 | (0.6) | (1.1) | (2.9) | (7.1) | (3.6) | (2.8) | (1.6) |
| Provinces | 0.8 | (0.2) | (1.7) | (1.1) | (1.0) | (1.0) | (0.7) | (0.5) | (0.5) | (0.4) | (0.4) | (0.8) |
| Federal | 0.6 | (0.6) | (3.6) | (2.1) | (1.6) | (1.2) | (0.4) | (0.0) | (0.1) | (0.9) | (0.9) | (0.8) |
| Total | 1.4 | (0.7) | (5.3) | (3.2) | (2.6) | (2.1) | (1.2) | (0.5) | (0.7) | (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 | 3.8 | 4.4 | 2.2 | 3.2 | 2.8 | 2.8 | 1.8 | 1.5 | 3.5 | 0.9 | 3.0 |
| 2018 f | 2.3 | 2.4 | 1.0 | 2.0 | 2.2 | 2.6 | 1.0 | 1.1 | 2.0 | -1.0 | 2.1 |
| 2019 f | 2.7 | 1.2 | 1.4 | 1.8 | 2.0 | 1.9 | 0.7 | 0.9 | 1.2 | 1.5 | 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 | 0.9 | 1.7 | 0.1 | 0.5 | 1.6 | 0.9 | 0.5 | 1.3 | 3.1 | 0.4 | 1.2 |
| 2019 f | 2.0 | 0.8 | 0.7 | 0.7 | 1.4 | 0.4 | 0.4 | 0.5 | 1.1 | 0.9 | 1.1 |
| 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 | 6.8 | 6.3 | 6.0 | 5.6 | 5.4 | 7.9 | 7.7 | 9.4 | 14.3 | 5.9 |
| 2019 f | 4.1 | 7.0 | 6.2 | 5.6 | 5.4 | 5.2 | 7.4 | 7.6 | 8.3 | 13.4 | 5.6 |
| 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 | 39.7 | 28.4 | 3.8 | 7.3 | 75.6 | 45.6 | 2.3 | 5.3 | 0.9 | 1.6 | 210.4 |
| 2019 f | 37.5 | 27.0 | 3.7 | 6.8 | 73.0 | 46.0 | 2.8 | 5.8 | 0.9 | 1.3 | 204.8 |
| 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 | 2.6 | 2.5 | 2.2 | 2.5 | 2.3 | 1.7 | 2.2 | 2.2 | 2.3 | 1.8 | 2.2 |
| 2019 f | 1.9 | 1.6 | 1.5 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 | 1.8 |

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** | | | | | | | | | | | |
| Jul 18 | 2.4 | 2.8 | 2.2 | 2.2 | 4.7 | 5.0 | 1.9 | 0.5 | 4.9 | -1.0 | 3.7 |
| Aug 18 | 1.5 | 2.7 | 1.6 | 3.3 | 5.0 | 4.7 | 3.9 | 0.4 | 5.1 | -0.6 | 3.7 |
| Sep 18 | 1.0 | 3.1 | 1.6 | 3.7 | 4.7 | 4.8 | 3.9 | 1.3 | 5.3 | -0.8 | 3.7 |
| **Manufacturing Shipments** | | | | | | | | | | | |
| Jul 18 | 11.1 | 9.7 | 19.2 | 7.8 | 3.8 | 9.2 | 12.0 | 8.1 | 1.4 | 20.0 | 7.3 |
| Aug 18 | 10.4 | 13.7 | 15.5 | 4.5 | 6.0 | 10.1 | 14.2 | 5.1 | 1.8 | 15.4 | 8.6 |
| Sep 18 | 8.4 | 15.0 | 13.2 | 0.9 | 7.8 | 8.6 | 7.7 | 8.9 | 8.9 | 18.7 | 8.9 |
| **Exports** | | | | | | | | | | | |
| Jul 18 | 9.2 | 24.3 | 20.0 | 14.6 | 2.4 | 8.6 | 14.5 | 5.9 | -4.4 | 32.1 | 10.6 |
| Aug 18 | 14.0 | 30.9 | 31.3 | 16.7 | 5.1 | 13.4 | 20.8 | 5.2 | 0.7 | 45.7 | 15.4 |
| Sep 18 | 12.6 | 32.6 | 26.9 | 11.5 | 6.4 | 15.4 | 17.1 | 4.6 | 12.9 | 53.8 | 16.2 |
| **Employment Growth** | | | | | | | | | | | |
| Aug 18 | -0.3 | 1.8 | 0.3 | 0.2 | 2.0 | 0.5 | 0.6 | 1.3 | 3.1 | 1.6 | 1.1 |
| Sep 18 | 0.5 | 2.2 | 0.2 | 0.1 | 1.6 | 0.4 | 0.5 | 1.6 | 3.8 | 2.5 | 1.2 |
| Oct 18 | 1.2 | 2.2 | 0.8 | 0.3 | 1.1 | 0.3 | 0.1 | 2.0 | 4.3 | 1.9 | 1.1 |