BMO Blue Book

Winter 2019

BMO We're here to help.™

Canada

ECONOMICS

Robert Kavcic,
Senior Economist

Fading Toward Potential

The Canadian economy has begun to moderate, with growth coming in 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 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.

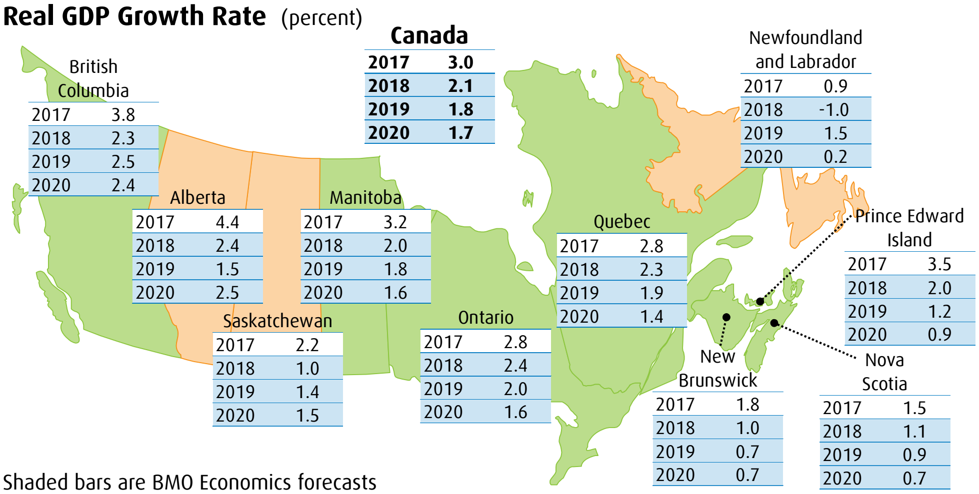
British Columbia is expected to remain right near the front of the pack, but growth likely downshifted to 2.3% in 2018 after a four-year run averaging 3.2%. Growth should get a boost again this year as a major LNG project breaks ground. Alberta will see one of the more noteworthy slowdowns, slipping to 2.4% in 2018 and 1.5% this year, 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 a 2% pace.

Ontario and Quebec have been big growth drivers recently, but both have shown signs of moderating. Growth in these two provinces was likely 2.4% and 2.3%, respectively, in 2018, down from 2.8% each in 2017. This 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 has faded with the CUSMA (alternately referred to as USMCA). Along with a pro-business policy shift, this should support confidence through 2019, and 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 believe the process of gradually returning to trend will play out in this part of the

Provincial GDP

Real GDP Growth Rate (percent)



Shaded bars are BMO Economics forecasts

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.

BUSINESS BANKING

Dev Srinivasan,
Head,
Canadian Business Banking

While Canada's broader economy is beginning to moderate, BMO's commercial customers are generally feeling positive about their prospects and we see many of them making investments for growth.

In BC, agriculture and knowledge-based industries are taking the lead in contributing to the country's leading economy. Alberta and Saskatchewan customers continue to show their well-established resilience in the face of challenges in the energy sector. Manitoba remains one of the most diverse economies in the country, with many manufacturers looking to expand south of the border. Ontario and Quebec will show moderate growth with businesses continuing to expand, while Atlantic Canadian businesses remain generally stable.

We are particularly happy to see that, across the country, companies are investing in innovation to increase productivity, lower costs, and ultimately compete in our changing economy. Many of our business customers, especially in manufacturing, are also looking to expand into the U.S. as a natural path to further growth. BMO has been levering its cross-border capabilities and vast experience to help them harness these opportunities.

We recognize as well that some industries face challenges. The unclear trade situation, with North American trade talks and US tariffs, has brought much uncertainty to the market. The successful CUSMA talks have helped ease concerns; moving forward, cautious optimism reigns among a number of our customers in manufacturing, agriculture and other sectors.

As well, the agriculture sector in a number of locations across the country has been hampered by poor weather conditions. BMO has implemented relief programs in several locations—most recently in PEI for the difficulties with the potato harvest—to ensure our customers can get through these difficulties.

Through good times and challenging ones, BMO is here to help our business banking customers. As the business landscape in Canada diversifies, we realize that not every business can be treated the same; this is why we've been hiring commercial bankers across all markets that specialize in key industry segments such as technology, agriculture and healthcare, to ensure our customers get the insights and advice they need to grow and thrive. Heading into 2019, BMO continues to focus on providing leadership in time to market, delivering leading industry specific structuring and advice to our customers, and cross-border banking.

We feel these are competitive differentiators for us, and beneficial to our customers as the economy continues to evolve and change. Our bankers stand behind our customers across geographies and sectors and are ready to advise customers on strategic spending and investing decisions that can serve as a catalyst for innovation, diversification and ultimately growth in 2019 and beyond.

British Columbia

ECONOMICS

Robert Kavcic,
Senior Economist

British Columbia's economic run has been stellar, and growth should get another boost in 2019 (to 2.5%) 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.

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 25% below the 10-year average, and prices for 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 recently 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 for FY18/19, improved from $219 million in the budget plan. Revenues have been revised up, while borrowing and net debt are tracking well below the budget plan.

BUSINESS BANKING

Michael E. Bonner,
Regional President,
Canadian Personal &
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B.C. & Yukon Division

Paul Seipp,
Regional Vice President,
Business Banking
Greater Vancouver

Steven Jensen,
Regional Vice President,
Business Banking
BC Interior and
Vancouver Island

British Columbia's economy has had an incredible run over the past few years. While some moderation is expected, we're bullish on growth moving forward—propelled by continued migration into the province, a strong job market, and a diversified base of industry.

We're seeing growing strength in knowledge-based industries (KBIs). With more contraction taking place among American players in this space, broader awareness for home-grown firms is opening doors for growth. We've seen sophisticated start-ups raising significant amounts of capital, particularly in the last year.

Our Indigenous customers continue to be a key contributor to BC's economy, with investments in a variety of partnerships and infrastructure projects that will boost growth and improve the quality of life in local communities. As Indigenous governments continue to increase their sophistication and entrepreneurialism in the province and beyond, we're seeing an acceleration of export development corporations as they continue to settle treaty and large trust arrangements.

In agriculture, we're seeing a significant amount of growth in greenhouses—particularly with growers who want to move into the nascent cannabis space. Meanwhile, we're observing more consolidation in the dairy industry as operations grow, and more capital investment for equipment and new technology. At the same time, rising land prices are putting pressure on operators in a rising interest rate environment. Customers are also keeping an eye on the unknowns from the new CUSMA—particularly in dairy. This is slowing some capital investment, and a wait-and-see approach appears to be common.

We're observing growth in the healthcare industry as well; migration from other provinces and an aging demographic has led both to growth and diversification in the kinds of services offered, particularly in preventative care. With BC continuing to be a net importer of seniors, we expect to see further expansion for some time to come.

Alberta

ECONOMICS

Robert Kavcic,
Senior Economist

Alberta's economy is softening alongside a weaker oil sector backdrop. Real GDP growth likely slowed to 2.4% in 2018 from 4.4% in 2017, and should weaken further to 1.5% this year. Weaker WTI prices and a volatile 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, recently 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 hefty $7.5 billion deficit for FY18/19. The real issue is next year's balance if this oil price environment persists, and ahead of an election.

BUSINESS BANKING

John MacAulay,
Regional President,
Canadian Personal & Business Banking
Prairies & NWT Division

James Gardiner,
Regional Vice President,
Business Banking
Alberta South

Amidst ongoing concerns about the price of oil, Alberta has largely become a tale of two sectors—energy and agriculture.

Sentiment among many of our non-agriculture customers remains cautious. In Alberta, the energy sector influences everything; after a rebound in 2017, the level of optimism is lower than we'd like to see. Through the recent downturn, many companies have been consolidated or sold, driving opportunities to assist others as they look to expand, purchase competitors and consolidate. Those that have survived have done so by deleveraging and cutting their costs.

Innovation in technologies geared towards oil exploration and pipeline management remains a bright spot for the economy, as start-ups continue to emerge. Meanwhile, the provincially mandated cut to oil production looks to be helping—although finding a solution for the fundamental issue of getting Alberta oil to the coast is still required for real optimism to return to this sector.

In agriculture, Alberta is the largest beef producing province in Canada—leading the nation in cattle inventory, and accounting for nearly half of the national cow herd. The agriculture sector's challenge is that it's commodity driven; volatility in prices can have a big impact on farmers. However, cattle prices have been relatively stable over the last year and are less volatile than a few years ago; this has added steadiness to that part of the sector.

Meanwhile, challenging weather conditions in terms of yields and quality are poised to have an impact on cash crop producers. To help our customers weather this storm, BMO recently launched a relief package to provide principal payment deferral and reduce or waive fees where appropriate for our agriculture clients in the region. We will continue to support our customers in this space moving forward.

Saskatchewan

ECONOMICS

Robert Kavcic,
Senior Economist

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 1.4% this year, underperforming the national average for a fifth straight 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.

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 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, 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.

BUSINESS BANKING

John MacAulay,
Regional President,
Canadian Personal & Business Banking
Prairies & NWT Division

Ron Collins,
Regional Vice President,
Business Banking
Manitoba & Saskatchewan

While grappling with a number of headwinds, the resiliency of Saskatchewan's business owners continues to be on display.

The past year has presented some challenges for the agriculture sector, one of the province's key industries. Weather conditions have led to some concerns among producers, with hot, dry weather taking its toll on wheat and canola fields early in the growing season. Later on in the year, unseasonably wet and cool weather had an adverse effect on the Prairie harvest, which eroded crop yields and quality in some areas. As a consequence, a number of agriculture producers are showing caution.

BMO recently launched a relief package to support our agriculture customers in the region. Meanwhile, investment in new technology is providing operators an opportunity to drive greater efficiency in their operations, which may help improve profitability and cash flows. This should help leave farmers better positioned to handle interest rate bumps.

In manufacturing, businesses are looking to benefit from the region's central location within North America. With more than half of the province's exports heading to the United States—and the pending CUSMA deal providing optimism—manufacturers will be increasingly keen to take advantage of export opportunities in the coming year. With the recent Government of Canada investment of $53 million to upgrade the highway near the US border, export activity will expand.

New economic opportunities are taking shape in the province as well, with the cannabis industry adding more than 700 jobs to the market. In the southern part of Saskatchewan, oil & gas remains challenged. Producers will be watching the situation with caution.

Manitoba

ECONOMICS

Robert Kavcic,
Senior Economist

Manitoba continues to grow at a steady pace, with real GDP expected to rise 1.8% this year, down from a solid 2.0% in 2018.

Manitoba's diverse manufacturing base and sturdy service sector 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 CUSMA 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. Net debt continues to rise.

BUSINESS BANKING

John MacAulay,
Regional President,
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Ron Collins,
Regional Vice President,
Business Banking
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Manitoba's diverse economy continues to hum along well. On the manufacturing side, the lower Canadian dollar has been a help to many businesses in the province. As well, these businesses are benefiting from the stability provided by the CUSMA. One important sign of positivity in the sector is the expanding number of businesses that are investing in equipment to improve productivity. Recent tax improvements on treatment of equipment from the federal budget will no doubt boost capital spending as well.

The rise in interest rates is leading to a tempering of some activity, but the generally positive environment will support growth. A number of companies continue to pursue growth into the U.S.; several have actually set up shop across the border to assist with expansion. Moreover, we see younger generations becoming more involved in their businesses; we expect an uptick in succession planning activity as a result.

In agriculture, 2018 provided an average harvest. That said, land values continue to appreciate, and we are seeing a number of producers invest in seed processing and the further refinement of agriculture products. In particular, we've noted a strong trend toward consolidation given changing demographics and moves to larger grain and cattle operations.

A significant amount of activity is taking place in Winnipeg. In real estate, we're seeing a lot of both office and condo development taking place as a result of the city's ongoing growth. Meanwhile, positive population growth from in-country migration and immigration is supporting residential construction. Infrastructure is also playing an important role, with a number of projects rolling over from the provincial government.

Business development efforts from YES! Winnipeg are no doubt having a positive effect. Investment dollars are flowing into the city, including the arrival of new jobs with the UbiSoft gaming company and other gig economy enterprises.

Ontario

ECONOMICS

Robert Kavcic,
Senior Economist

Ontario's economy is moderating after a powerful multi-year run. Real GDP is expected to grow 2.0% this year, down from a 2.5% average pace between 2014 and 2018—that was the best such run in 15 years. While the economy is moderating, this year's growth figure would remain roughly in-line with potential and 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, CUSMA 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. We expect stable overall price conditions through the remainder of the cycle.

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). 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.

Eastern Ontario

BUSINESS BANKING

Victor Pellegrino,
Regional President,
Canadian Personal & Business Banking
Eastern, Central & Northern Ontario Division

Lester Religa,
Regional Vice President,
Business Banking
Eastern, Central & Northern Ontario

Throughout Eastern Ontario, business sentiment continues to be strong. Our commercial customers have been expressing a positive outlook for the coming year, driven by growing business investment and positive population inflows—all of which should create opportunities in 2019 and beyond.

In Ottawa, momentum is building—record-low unemployment is set to be a positive catalyst for further business growth. The technology sector, as an example, continues to expand with particular emphasis on smaller companies—those with 50 employees or fewer—aside from a few larger additions such as Amazon. This marks a very different configuration for a sector that has thrived in the past on larger players, such as Nortel.

The optimism within Ottawa is also beginning to reshape the skyline, with residential real estate showing robust growth. More condos are popping up across the city, particularly along the LRT lines. For the first time in years, we are seeing homes sold at or above asking price, marking an exciting trend in price growth.

Elsewhere in the region, agriculture continues to show continued strength. Recent breakthroughs in trade negotiations have calmed some of the uncertainty that prevailed in 2018, with the proposed CUSMA being mostly well-received by mid- to large-sized producers. Meanwhile, consolidation continues within the sector, with healthy activity relating to the purchase of farms and agriculture equipment on both the dairy and cash crop sides. The agriculture market is healthy, balanced and continues to evolve.

In the western part of the region, business sentiment continues to be positive, with many service industry businesses being established in areas along the eastward expansion of Highway 407. In the central part of the region, we've seen a revival in real estate in markets like Belleville, as homeowners sell their Greater Toronto real estate and re-establish themselves in this part of the province.

Southwestern Ontario

BUSINESS BANKING

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Throughout Southwestern Ontario, business sentiment remains fairly positive. This flows from the strong agriculture sector, continued growth in Kitchener-Waterloo's technology hub and a shifting landscape for the region's manufacturers. However, our customer base is starting to show some concern and caution given a rising rate environment and trade uncertainty given U.S. steel tariffs and the potential effects of CUSMA.

In agriculture, producers remain strong. The weather in 2018 was favourable, leading to solid crop yields. As well, price pressures that were evident earlier have eased and stabilized, providing for more security. We're also seeing a continuation of the consolidation trend, with larger ag businesses acquiring land as they grow.

Of note on the dairy side, producers are awaiting the effects of production cuts coming from the new CUSMA. Meanwhile, greenhouse space is growing; many operators are expanding into the U.S. for better access to gas, land and lower taxes.

Kitchener-Waterloo's technology space continues to expand. We're seeing more focus on artificial intelligence and big data, with Waterloo's Data Hub driving investment and innovation. Start-up activity continues to be robust, with support from both the public and private sectors.

The manufacturing industry is stable and is showing further growth potential. A number of customers in this space are expanding beyond the border into the United States to capture more income growth. But trade uncertainty remains a concern, particularly in the automotive industry; the actual effects of CUSMA may lead to some headwinds for the sector.

While the housing market has stabilized, real estate development is booming—particularly in the condo space. Some industrial space is also coming online, and vacancies are currently very low. We've noted a significant amount of development in healthcare facilities and retail storefronts, which bodes well for specialized industries and retail sales.

BUSINESS BANKING

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Greater Toronto – North

CANADIAN COMMERCIAL BANKING

Hesham Abourahma,
Regional Market Leader, Real Estate Finance

The Greater Toronto Area

The Greater Toronto Area economy continues to perform strongly and is poised for further growth.

This strength flows from a number of factors—most particularly the technology sector. Toronto ranks as North America's fourth largest technology talent market; it has over 241,000 technology workers and is currently outpacing other North American markets—including the likes of the San Francisco Bay area, Seattle and Washington, DC—in terms of adding jobs in the sector.

We don't believe the sector has peaked; we expect it will continue to grow. The GTA continues to boast high-quality and well-educated technology talent. This will continue to attract companies to the area—both Canadian and internationally based—which in turn will continue to strengthen the economy.

The regional economy continues to be heavily dependent on export markets, with the GTA exporting $70 billion in goods and services every year. Business owners are telling us that, now that North American trade discussions have been concluded, they feel more comfortable knowing what lies ahead.

Infrastructure spending continues to be a significant driver of the GTA economy. More than 80% of Canada's population now lives in urban centres, leading to a continued need to provide infrastructure to support that growth. Heading into a federal election year, we expect further infrastructure spending announcements which will continue to help Toronto.

The housing market in the GTA has stabilized. We see it being propped up by steady employment growth and the purpose-built rental apartment market. Housing demand has finally started to ease, thanks to new mortgage rules from the federal government rising mortgage rates. While this moderate cooling off won't completely solve the area's affordability problem, condominiums and rental properties have helped provide more affordable options to attract and keep people in the area.

Quebec

ECONOMICS

Robert Kavcic,
Senior Economist

Quebec has posted its best economic performance in 15 years. Real GDP likely grew 2.3% last year, following a powerful 2.8% gain in 2017. Growth has begun to moderate, likely softening to 1.9% this year, but that 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, in the first update since the new government took office. 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.

BUSINESS BANKING

Mario Rigante,
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Québec Division

Paul Sabbagh,
Regional Vice-President,
Business Banking
Montreal Metropolitan

Martin Beauchamp,
Regional Vice-President,
Business Banking
South and East of Québec

The renewed strength of Quebec's economy has been fantastic news for our commercial customers. We see expansion across the province, with significant liquidity in the market for the financing of projects.

The technology sector has been particularly buoyant. Many companies are moving into the Montreal area to take advantage of the availability of labour and the attractive tax environment; the industry as a whole continues to grow as a result. Clean tech, in particular, represents an emerging sector; its promise suggests we need to stay on top of changes in environmental policy, international agreements and trade. As well, Montreal has established a worldwide reputation for its AI expertise. Our business customers see the benefits of AI; not only are knowledge-based industry players growing, but businesses in all sectors will be able to take advantage of the resulting local ecosystems.

On the agriculture side, the new CUSMA has led to concerns from the milk and poultry industries given changes to import quotas. At this point, the real financial impact of the agreement on these producers is difficult to quantify; this uncertainty is leading to cautious behaviour from producers. Meanwhile, we continue to see a consolidation trend with more acquisitions of smaller operations by large farms expected in the near future.

We are watching a shift unfold in healthcare practices. Increasingly, physicians are partnering together to open their own clinics instead of working in hospitals. This trend is being driven by improved profitability and is opening up greater access to physicians.

Robust economic and population growth has made the Quebec real estate market a hot bed for investors and developers. We're hearing from our customers that the pace of residential construction increased last year and should remain healthy through 2019. Population growth is also contributing to a boom in purpose-built rental units, which will help with affordability in the area as land values and construction costs rise.

New Brunswick

ECONOMICS

Robert Kavcic,
Senior Economist

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% last 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. New Brunswick has shown some of the better fiscal momentum recently. Encouragingly, net debt in FY17/18 fell as a share of GDP for a second consecutive year.

BUSINESS BANKING

Lynda Taylor,
Regional President,
Canadian Personal & Business Banking
Atlantic Provinces Division

Justin Scully,
Regional Vice President,
Business Banking
Atlantic Provinces

Renewed corporate investment in the province has given the economy a needed boost.

The legalization of cannabis and the demand for medical marijuana is leading to job creation in the province. One large distribution center—Organigram—in Moncton is employing hundreds of people and creating millions in tax dollars. As the industry continues to find its footing, we expect we will see more activity in this space, which will continue to drive economic growth.

In the real estate sector, construction of multi-unit buildings led the way in 2018, increasing by 13% year-to-date. Single housing starts were the highest for the month of August since 2015. It's a positive picture and, as corporate investment continues, we expect to see increased demand which should help draw people in and offset outward migration.

The Petitcodiac River Restoration Project is something that our clients have been keeping a watchful eye on. A new permanent bridge will be built over the Petitcodiac River connecting the Town of Riverview with the City of Moncton. This will mean a safer and more reliable crossing for commuters and tourists, and a restored tidal flow that will greatly enhance eco-tourism and economic growth for the region. This is a major infrastructure project that will see the government—at both the Provincial and Federal levels—commit a total of $61.6-million to this final phase of the project.

Nova Scotia

ECONOMICS

Robert Kavcic,
Senior Economist

Economic growth looks to moderate in Nova Scotia this year, with real GDP likely to come in at 0.9%, down from 1.1% in 2018 and strong 1.5% in 2017. The slowdown is consistent with the broader theme of most provinces gearing down toward potential. Demographics and nonresidential investment have provided a boost in recent years.

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. 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.

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 early in 2018.

The Province of Nova Scotia is projecting a $27 million surplus in FY18/19 (0.1% of GDP). 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. Net debt will gradually fall as a share of GDP, and the fiscal story remains positive.

BUSINESS BANKING

Lynda Taylor,
Regional President,
Canadian Personal &
Business Banking
Atlantic Provinces Division

Justin Scully,
Regional Vice President,
Business Banking
Atlantic Provinces

Business opportunities continue to grow throughout Nova Scotia, with good prospects for economic expansion. We are seeing major construction and redevelopment for Nova Scotia's health care facilities. The QEII is undergoing a major development, with the Halifax Infirmary being expanded plus the building of a new Community Outpatient Centre. Dartmouth General hospital will also be undergoing renovations, and Cape Breton will see significant upgrades to its hospitals with a complete redesign and expansion in Sydney, new health centres in North Sydney and New Waterford, and a renovated emergency department in Glace Bay.

Meanwhile, Michelin North America recently announced two new projects at its Pictou County site that will see more than $20 million invested and the creation of 150 new jobs. In addition, the investments will make 200 currently temporary positions permanent.

In construction, activity on the single-detached market has remained stable year over year. The good news is that starts in multiples have more than doubled the levels recorded last August. So far this year, multiples construction has remained strong, with rental market demand continuing to grow given international and interprovincial migration into Halifax CMA.

The Irving Shipyard continues to work on more than $3.4 billion in contracts; however there is a potential threat of the maintenance work being moved out of the province. Shipbuilders at Halifax's Irving Shipyard have launched a campaign to retain their work.

In fisheries, our commercial customers have seen an increase in lobster exports into Asian markets. The current trade dispute between the US and China, however is leading to some uncertainty. While demand for Canadian lobster in China has gone up in the short term, other Asian markets are purchasing lobster from the Americans at prices at least US$1 cheaper; this is putting pressure on the Canadian producers.

Prince Edward Island

ECONOMICS

Robert Kavcic,
Senior Economist

The PEI economy has run at a very solid pace, but real GDP growth likely cooled to 2.0% in 2018 after a 3.5% jump in 2017, and should soften further to 1.2% this year. Sturdy U.S. economic growth and a population boost should continue to offset public-sector restraint, leaving the province to grow 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.

BUSINESS BANKING

Lynda Taylor,
Regional President,
Canadian Personal & Business Banking
Atlantic Provinces Division

Justin Scully,
Regional Vice President,
Business Banking
Atlantic Provinces

The P.E.I. economy has been performing strongly, but businesses are starting to show signs of caution.

Fishery continues to represent a major component of PEI's economy. Year over year, catches have been good, and we continue to see strong global demand especially in Asian markets. The recent tensions with China are a concern for some fishers, but the overall situation remains strong.

On the agriculture side, unfavourable growing conditions for the 2018 crop—coupled with record high rainfall during the harvest period—have negatively affected producers across the country, but farmers in P.E.I. were one of the more highly impacted groups. Farmers left over 6,000 acres unharvested. A typical year would see only 500 to 1,000 acres abandoned, on average. The importance of agriculture to the economy cannot be understated, so we are supporting our clients with a relief program aimed at helping alleviate some of the financial challenges they have been facing.

The dairy market is one we're keeping an eye on. Under the new CUSMA, Canada agreed to open up its market and allow American farmers to sell more milk, cheese, and other dairy products north of the border. It also agreed to end a pricing system that limited imports of certain milk ingredients. While dairy farmers have met this deal with some hesitation, we see upside to the overall Canadian economy as this will bump up exports.

As in previous years, tourism continues to be a major source of income for the province. P.E.I. boasts some of the most picturesque views in Canada, and visitors from across North America and around the world come to P.E.I. for the impressive golf courses, fantastic beaches, and vibrant towns. The Canadian dollar has been supportive of tourism and, this year, American tourists have been a major component of the tourism trade.

Newfoundland & Labrador

ECONOMICS

Robert Kavcic,
Senior Economist

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 rise 1.5% this year after a 1.0% decline in 2018, 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, trending 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. That said, the underlying oil price forecast upgrade already looks too aggressive given recent weakness, leaving downside risk through the remainder of the fiscal year.

BUSINESS BANKING

Lynda Taylor,
Regional President,
Canadian Personal & Business Banking
Atlantic Provinces Division

Justin Scully,
Regional Vice President,
Business Banking
Atlantic Provinces

After a challenging period, Newfoundland & Labrador businesses are showing optimism.

The oil & gas industry is expected to see a dramatic economic turnaround, with increased offshore oil royalties expected to contribute significantly to provincial growth. Newfoundland & Labrador remains committed to the sector, with the pending West White Rose Project ready to start construction. This multibillion dollar project will provide a new deep water drilling platform, with a total investment of $1.1 billion. The ancillary benefits to other businesses will support an expansion in employment.

In mining, the Moss Pit has officially opened at the Iron Ore Company of Canada's mine in Labrador City. The expansion of the company's operations is expected to extend the overall life of the mine by 50 years; with iron and ore prices going up, the investment will provide significant income and support for provincial growth.

The energy sector continues to show strength as well, with the lower Churchill River's hydroelectric production representing one of the most attractive energy resources on the continent and a major component of the province's energy resource portfolio. The project's two sites at Muskrat Falls and Gull Island, with a combined capacity of over 3,000 megawatts, have started providing energy—to both Newfoundland & Labrador and Nova Scotia through the Maritime Link. Muskrat Falls, in particular, is expected to generate additional power next year and operate at full capacity in 2020.

In the fishery, the market remains strong with positive global prices. Supply has become a challenge for certain types of seafood. Shrimp Fishing Area 6, to the northeast of the island of Newfoundland, is not showing any inventory and fishers are having to move further north. We see positive signs for other types, however, with a stable outlook for ground fish and a ramping up of lucrative Asian exports of sea cucumber.

Provincial Economic Summary

	BC	Alberta	Sask.	Manitoba	Ontario	Quebec	NB	NS	PEI	NL	Canada
Real GDP Growth (chain-weighted : year/year % change)											
2018 e	2.3	2.4	1.0	2.0	2.4	2.3	1.0	1.1	2.0	-1.0	2.1
2019 f	2.5	1.5	1.4	1.8	2.0	1.9	0.7	0.9	1.2	1.5	1.8
2020 f	2.4	2.5	1.5	1.6	1.6	1.4	0.7	0.7	0.9	0.2	1.7
Employment Growth (year/year % change)											
2018	1.1	1.9	0.4	0.6	1.6	0.9	0.3	1.5	3.0	0.4	1.3
2019 f	2.0	1.2	1.3	1.0	1.4	0.6	-0.2	0.7	0.8	0.8	1.2
2020 f	1.3	0.9	0.3	0.5	0.8	0.4	0.1	0.2	0.2	0.2	0.7
Unemployment Rate (percent)											
2018	4.7	6.7	6.1	6.0	5.6	5.5	8.0	7.6	9.4	13.9	5.8
2019 f	4.4	6.6	5.8	5.8	5.5	5.4	7.8	7.4	8.5	11.8	5.7
2020 f	4.3	6.5	5.8	5.7	5.4	5.4	7.7	7.3	8.4	11.4	5.6
Housing Starts (thousands)											
2018	40.9	26.2	3.6	7.4	79.3	46.9	2.3	4.9	1.0	1.5	214.0
2019 f	37.5	27.0	3.7	6.8	73.0	46.0	2.8	5.8	0.9	1.3	205.3
2020 f	35.0	30.0	3.5	6.5	72.0	43.0	2.4	5.0	0.9	1.2	200.0
Consumer Prices (year/year % change)											
2018 e	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	1.7	1.6	1.6	1.6	1.5	1.6	1.7
2020 f	2.3	2.0	2.0	2.1	2.1	1.8	2.1	2.0	1.8	2.0	2.1

e = estimate f = forecast