

## Provincial GDP by Industry: Easing 2018 Growth

- As expected, Statistics Canada’s preliminary real GDP data for 2018 reports softer growth across the provinces following the previous year’s strong and broad-based expansion.
- Gains in Canada’s net oil-producing provinces eased substantially, and should continue to be dampened by transportation capacity challenges in 2019 before rebounding in line with the recovery in oil prices.
- The release does not materially alter our provincial outlook. Most net oil-consuming provinces are expected to witness further moderation in 2019–20, with a few set to benefit from major project activity.

**Growth eased in every province in 2018.** Prince Edward Island led with a 2.6% expansion, while advances in the four largest provinces also outstripped the national average (table 1). For Quebec, 2018 completed the strongest two-year real output gain since 1999–2000. Newfoundland and Labrador was the only jurisdiction in which the economy contracted—a largely expected result given that work on the CAD 14 bn Hebron offshore oil platform ended in 2017. As well, New Brunswick’s meagre 0.1% gain lagged even the most pessimistic forecasts.

**Oil sector developments led to a deceleration of growth in oil-producing provinces in 2018.** Despite the decline in oil prices and the widening WTI-WCs differential in late 2018, Alberta’s energy sector still accounted for almost half of growth in the province last year. Oil and gas extraction output grew by 7.8% in Alberta, and by a more modest 2.3% in Saskatchewan. While crude prices have recovered this year and curtailment policies have closed the differential, pipeline transportation constraints remain in place and are expected to dampen growth in the Western net oil-producing regions this year.

**Manufacturing output slowed in a majority of provinces** (chart 1). This likely reflects developments such as more moderate growth and heightened uncertainty for trade-exposed sectors. In Ontario, for example, real manufacturing sector GDP rose a modest 1.7% versus 2017, but motor vehicle manufacturing declined by 7%. Niche industries—such as aerospace products in Quebec, Manitoba, and PEI—witnessed the strongest gains. We expect further deceleration of growth to pose a drag on manufacturing industry output this year, though reduced trade uncertainty and new federal and provincial tax incentives should provide a partial offset.

**Mirroring federal and provincial policy measures that cooled the housing market in 2017–18, residential construction output growth was modest in the four largest provinces.** Ontario witnessed a 1% contraction—its worst result since 2009—while Quebec homebuilding activity rose just 4% versus a climb of almost 8% in 2017. BC residential construction GDP held up with a 3.7% increase, better than the 2.5% 2017 advance but far below the double-digit gains seen in 2015–16. A retreat in Alberta sectoral output reflects the fallback from a Fort McMurray rebuild-related jump in 2017. Stricter mortgage qualification tests will pose less of a drag on housing market activity in 2019 and government efforts to lift the supply of affordable housing are progressing, though construction sector labour shortages are emerging in Ontario and BC.

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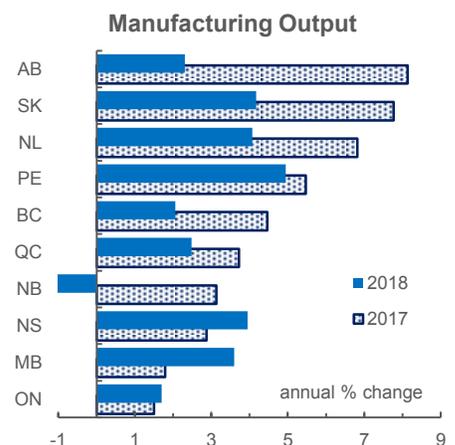
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Table 1  
**Real GDP by Industry, Basic Prices**  
annual % change

	2000–14 Average	2017	2018p
Canada	2.3	3.2	2.0
NL	2.7	0.9	-2.7
PE	1.7	3.4	2.6
NS	1.3	1.5	1.2
NB	1.1	2.0	0.1
QC	1.8	2.9	2.5
ON	1.9	2.8	2.2
MB	2.4	3.1	1.3
SK	2.3	2.3	1.6
AB	3.7	4.6	2.3
BC	2.6	4.0	2.4

Sources: Scotiabank Economics, Statistics Canada.

Chart 1



Sources: Scotiabank Economics, Statistics Canada.

**While gains last year were evenly split between goods- and services-producing industries, technology sector growth remains clustered in a few provinces.** Output in information and communications technology—which includes high-value services as well as a range of goods-producing industries—has risen by 31.4% in BC since 2010 (chart 2). Following gains of about 5% last year in Quebec and Ontario, it is also up more than 20% in both jurisdictions since the start of this decade. Professional, scientific, and technical services output rose the most of any topline services segment at the national level last year, and advanced in seven provinces. Provinces that capitalize on the opportunity presented by high-value services industries should witness the strongest growth going forward.

**Project development continues to drive growth in several provinces, especially in mining and oil & gas extraction, where healthy 4.7% Canada-wide gains mask large fluctuations across the country** (table 2, p.3). Nova Scotia's increase of more than 25%, for example, ensued a 51% fall-off last year as the Sable and Deep Panuke offshore gas projects approached decommissioning, while a 21.4% decline in PEI reflects the completion of work on a power transmission line in 2017. Looking forward, new investments in British Columbia's burgeoning natural gas sector through Kitimat should not only propel its 2019 growth rates, but also provide a boost nation-wide. We also anticipate a return to solid growth this year in Newfoundland and Labrador as several major ventures reach peak activity.

**Provincial crop production faces mixed prospects.** Double-digit gains in both Ontario and Quebec were almost entirely attributable to significant increases in licensed cannabis production. Strong growth in this sector should continue in 2019 as initial constraints that materialized as supply came on line are alleviated. On the other hand, sectoral output in the Prairie Provinces, lifted last year by robust canola production, will be adversely impacted by trade tensions with China in 2019.

Chart 2

**BC Still Home to Canada's Fastest-Growing Tech Sector**

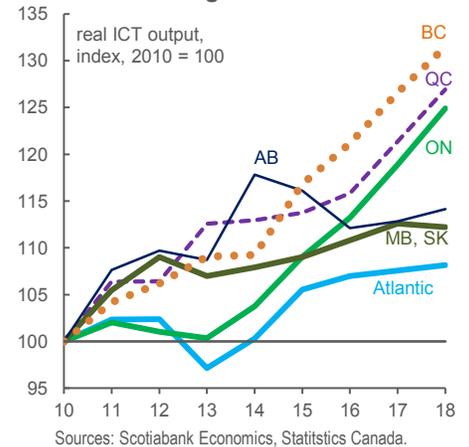


Table 2

**Real Provincial GDP by Industry, Basic Prices**

annual % change

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	Canada
<b>ALL INDUSTRIES</b>	<b>-2.7</b>	<b>2.6</b>	<b>1.2</b>	<b>0.1</b>	<b>2.5</b>	<b>2.2</b>	<b>1.3</b>	<b>1.6</b>	<b>2.3</b>	<b>2.4</b>	<b>2.0</b>
<b>Goods</b>	<b>-5.9</b>	<b>3.2</b>	<b>1.0</b>	<b>-2.8</b>	<b>2.9</b>	<b>1.3</b>	<b>1.1</b>	<b>2.3</b>	<b>3.1</b>	<b>3.3</b>	<b>1.9</b>
Agriculture, Fishing & Forestry	-9.1	1.2	1.0	-2.3	4.9	6.9	-0.8	1.7	-2.8	8.8	2.2
Mining and Oil & Gas	-0.8	-21.4	25.8	-9.9	11.0	-2.9	-3.2	2.7	6.4	10.5	4.7
Utilities	3.8	5.1	3.9	-2.5	1.9	2.2	-7.8	4.5	2.6	-6.1	0.6
Construction	-19.6	2.6	-6.1	-0.6	2.2	0.2	4.5	-0.2	-0.7	3.1	0.5
Manufacturing	4.1	4.9	3.9	-3.8	2.5	1.7	3.6	4.2	2.3	2.1	2.1
<b>Services</b>	<b>-0.2</b>	<b>2.4</b>	<b>1.3</b>	<b>1.1</b>	<b>2.4</b>	<b>2.4</b>	<b>1.4</b>	<b>1.2</b>	<b>1.8</b>	<b>2.2</b>	<b>2.0</b>
Retail Trade	-4.1	1.6	0.2	-0.3	1.7	2.0	0.4	-1.4	-0.6	1.1	0.8
Wholesale Trade	-0.6	3.7	1.0	-3.9	3.4	2.9	-0.9	1.4	4.0	2.5	2.7
Transportation & Warehousing	-2.8	3.0	1.1	0.2	1.7	3.9	2.9	2.9	5.0	3.8	3.2
Information & Culture	-1.5	0.4	-1.5	-2.0	1.6	-0.6	1.1	-2.2	-1.1	-1.6	-0.4
Finance & Insurance	-1.7	2.3	1.0	1.2	2.3	2.4	0.1	0.5	1.2	2.7	1.9
Real Estate & Leasing	-0.1	2.4	1.4	1.5	2.0	1.1	2.4	1.6	1.8	1.5	1.6
Professional, Scientific & Technical	3.1	-0.6	2.0	3.9	3.9	4.9	3.4	0.0	-0.6	1.7	3.3
Management of Companies	-4.8	-5.0	-4.4	-6.0	3.1	-5.5	-6.7	-1.7	1.5	0.9	-2.0
Administrative, Support & Waste	-2.8	8.7	3.1	-0.7	1.4	2.8	-1.2	-3.5	1.2	1.5	1.7
Education	0.8	3.4	1.4	1.8	2.3	3.0	2.0	2.7	3.0	3.7	2.8
Health Care & Social Assistance	0.9	3.3	2.2	1.6	2.9	3.1	1.0	2.1	3.0	3.0	2.8
Arts, Entertainment & Recreation	0.7	5.5	1.8	1.8	1.1	2.7	3.6	1.3	2.0	2.5	2.8
Accommodation & Food	-0.7	3.1	1.5	1.6	4.2	1.9	2.0	-0.3	0.6	5.0	2.3
Other Services	-1.1	-1.9	2.9	1.4	1.7	1.1	-0.8	-0.1	2.7	1.5	1.5
Public Administration	2.7	2.1	1.2	3.0	1.7	2.8	2.0	2.0	1.0	2.0	2.1
<b>Memo Items:</b>											
Industrial Production	0.2	4.8	5.1	-3.8	2.9	1.6	-0.1	3.3	4.9	2.4	2.6
Private-Sector Services	-1.2	2.2	1.1	0.4	2.4	2.2	1.2	0.7	1.6	2.0	1.9
Public-Sector Services*	1.5	2.8	1.6	2.2	2.3	3.0	1.6	2.2	2.3	2.7	2.5
Information & Communication Technology	-0.3	1.6	1.0	0.2	4.6	5.1	1.5	-2.6	1.2	1.8	3.5

\* Education, health care &amp; social assistance and public administration.

Sources: Scotiabank Economics, Statistics Canada.

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