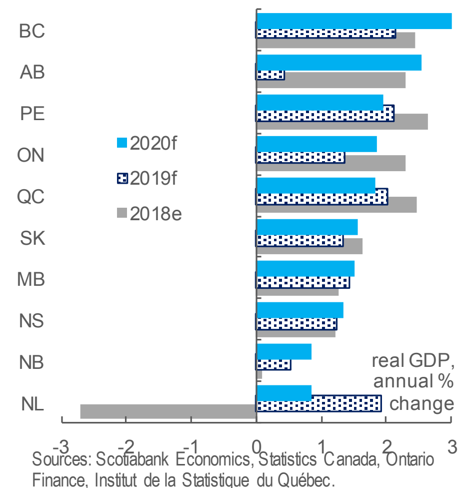
Provincial Prospects Diverge With Major Project Activity, New Trade Threats

HIGHLIGHTS

- British Columbia is still expected to see the strongest economic growth among the provinces this year and next (chart).
- We foresee greater divergence in provincial growth patterns than we did just a few months ago; differences in major project development and continued strength in job creation underlie revisions[1].
- Fiscal policy also continues to point to a "two-brake economy," with new plans and emerging details of previously announced policy levers highlighting different Provincial economic management approaches.
- Population flows are shifting as well, and are key to forecast changes across a number of provinces.
- Canada's ongoing diplomatic skirmish with China presents significant downside risk for growth in several jurisdictions, and adds to an uncertain trade outlook dominated by protectionist US policy.
- Initial data suggest mixed responses to business investment incentives implemented at the federal and provincial level late last year.
- Housing markets continued to drag on growth in Ontario and BC to begin 2019, but are increasingly aligning with economic fundamentals and underlying demographic trends across the country.
- Pipeline transportation capacity issues remain in place in the western Canadian oil patch, and net oil-producing provinces continue to grapple with long-run diversification challenges.

CONTACTS

Marc Desormeaux, Provincial Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com



INDEX

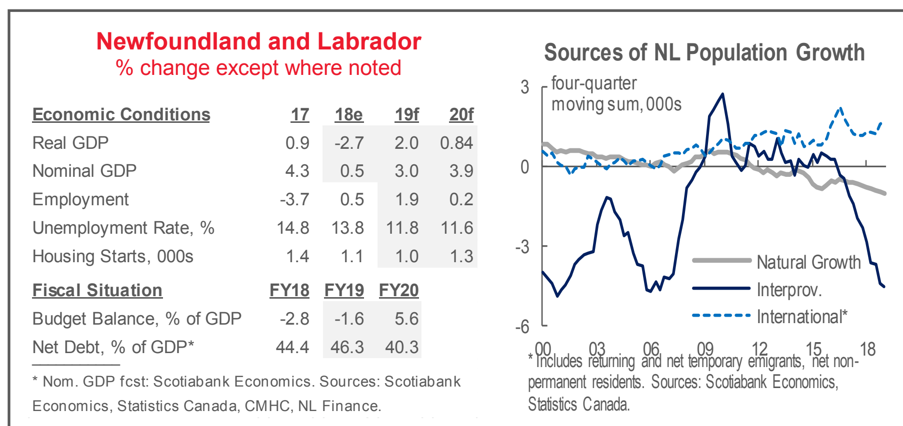
Highlights	1
Newfoundland and Labrador	2
Prince Edward Island	2–3
Nova Scotia	3
New Brunswick	4
Quebec	4–5
Ontario	5–6
Manitoba	6
Saskatchewan	6–7
Alberta	7–8
British Columbia	8
Provincial Forecast Summary Table	9

[1] Figures reported in Canadian dollars unless otherwise stated.

NEWFOUNDLAND AND LABRADOR—SURGING GROWTH THIS YEAR, BUT LONG-RUN CHALLENGES REMAIN

Newfoundland and Labrador's forecast growth profile remains anchored to major project activity. The province's labour market has long been sensitive to the ups and downs of construction on large ventures, and this year is no exception. Amid peak activity at the West White Rose Extension offshore drilling project and work at multiple mines, full-time job creation is up 3.4% y/y ytd—still more than any other province—and mining, quarrying, and oil & gas extraction account for 41% of net new full-time jobs versus just 5% of the full-time workforce. Accordingly, we anticipate hefty investment and household spending gains on The Rock this year. Both investment and consumer spending are expected to stall in 2020 as work on major projects wanes.

Diversification beyond the natural resources sector remains a key long-term challenge, though exports are set to benefit from stepped-up oil and metals production this year and next. Alongside tourism and ocean technology, the province's recent economic growth strategy identified aquaculture as a high-potential industry; work on a $250 mn salmon farm in Placentia Bay should assist sectoral investment activity this year and next. Offshore exploration ventures—particularly the Bay du Nord deep water project expected to be sanctioned in 2020—also present upside potential, though execution of the province's electricity rate mitigation plan—some details of which were released in the March 2019 Budget—will be crucial for broader-based investment attraction.



Newfoundland and Labrador
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	0.9	-2.7	2.0	0.84
Nominal GDP	4.3	0.5	3.0	3.9
Employment	-3.7	0.5	1.9	0.2
Unemployment Rate, %	14.8	13.8	11.8	11.6
Housing Starts, 000s	1.4	1.1	1.0	1.3
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	-2.8	-1.6	5.6	
Net Debt, % of GDP*	44.4	46.3	40.3	

* Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, NL Finance.

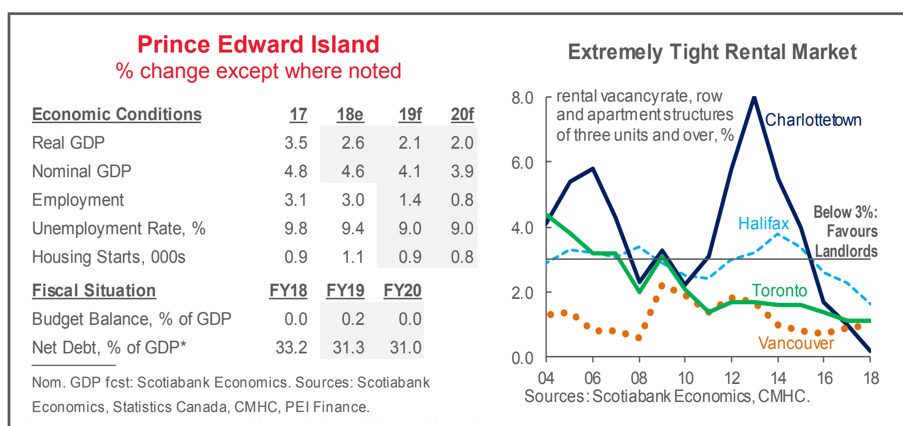
Home buying has picked up amid surging employment growth, but the province's housing market remains mired in an overhang of unsold units that accrued during the last commodity price downturn. January to May home sales are up a robust 6.3% versus a year ago, but both housing starts and residential construction investment hovered near their lowest-ever reported levels during much of H1-2019. The latter trend should persist in the medium-term with near-record numbers of unabsorbed units in St. John's likely to discourage residential construction and dampen home price gains.

Over the longer run, demographic factors will continue to constrain workforce growth. Rapid population aging is expected to persist, as is the drag from net interprovincial migration. As of Jan. 1, 2019, Newfoundland and Labrador witnessed its widest four-quarter outflow of residents to other Canadian jurisdictions since 2007 (chart).

PRINCE EDWARD ISLAND—NEAR-TERM PRESSURES AND LONG-TERM PLANS

Expectations of robust population gains vis-à-vis rising immigration continue to underpin our forecast of economic growth stronger than the national average on Prince Edward Island. Newcomers helped lift the PEI population to 2.1% y/y or higher—more than any other province—in 10 of the 11 quarters to April 1, 2019. Successful newcomer integration helped propel full-time job creation in excess of 3% in both 2017 and 2018; that rate has generally persisted in 2019. An increase to economic immigration targets expected this year should help the Island further harness the economic potential of skilled newcomers as employment growth slows to a more sustainable pace.

Alongside steady employment and population gains, measures detailed in the new PEI administration's recent budget should support



Prince Edward Island
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	3.5	2.6	2.1	2.0
Nominal GDP	4.8	4.6	4.1	3.9
Employment	3.1	3.0	1.4	0.8
Unemployment Rate, %	9.8	9.4	9.0	9.0
Housing Starts, 000s	0.9	1.1	0.9	0.8
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	0.0	0.2	0.0	
Net Debt, % of GDP*	33.2	31.3	31.0	

Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, PEI Finance.

the province's expansion. Significantly stepped-up infrastructure spending to meet the needs of an influx of newcomers—announced in November 2018—will continue under the new government with additional support from Ottawa. As well, increases to the basic personal income tax amount and low-income tax threshold should modestly lift consumer spending beginning in 2020.

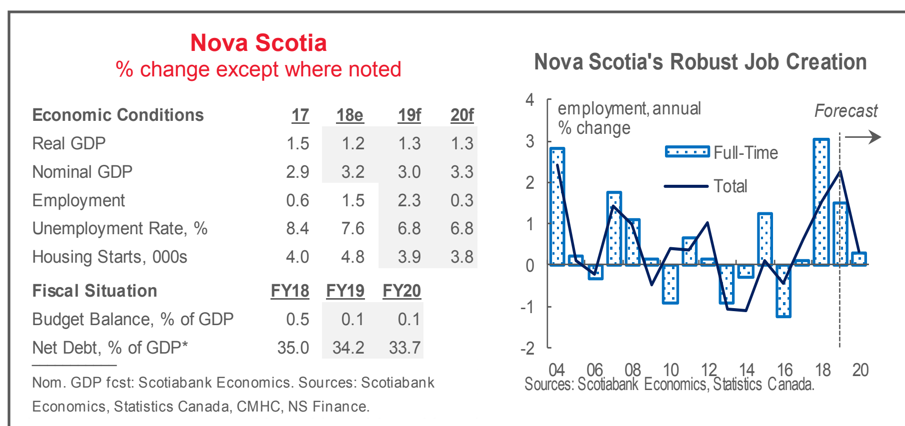
The new government also expanded efforts to alleviate housing affordability challenges on the Island. With an acute shortage of rental units in Charlottetown (chart), the Province earmarked funds for rental supplements and new construction beyond the targets announced in the prior administration's *Housing Action Plan*. These measures should help lift the supply of affordable housing alongside incentives implemented at the municipal level, but labour shortages remain in PEI's construction sector and the depth of the current shortfall suggests that sustained demand-supply realignment is at least a few years off.

Ventures likely to boost investment this year and next include the construction of a $35 mn cannabis greenhouse and warehouse and a $60 mn wind farm—confirmed in the June budget—plus facilities upgrades by an aerospace firm and a biopharmaceutical manufacturer. The latter two projects should also eventually lift exports—aerospace and pharmaceutical products remain key to provincial trade and have risen briskly to start 2019. After inclement weather in much of 2018, potato production will likely return to more normal levels, though Canada's diplomatic dispute with China presents broad-based downside for exports and tourism.

NOVA SCOTIA—STILL BENEFITING FROM POPULATION GAINS

Upward revisions to Nova Scotia's projected growth reflect the persistence of above-trend job creation. Total employment is now forecast to expand by 2.3% this year, which would represent the steepest rise since 2004 (chart). Gains to date in 2019 are oriented towards part-time work, and imply a smaller incremental boost to household income than in 2018, but full-time job growth has also held firm after last year's surge. New jobs are concentrated in the goods sector, and in high-wage professional, scientific, and technical, and health care services.

Hefty population gains have also continued. From January 1 to April 1, 2019, Nova Scotia's population rose by 1.2% y/y—the strongest quarterly expansion since 1984—with the number of Halifax residents aged 15 and over up 2% y/y ytd through June 2019. Greater numbers of newcomers, alongside improving immigrant labour force integration, have contributed to this trend, as have stable population inflows from other provinces that reflect both the prolonged nature of the recovery in Canada's oil-producing regions and Nova Scotia's appeal to job-seekers.



Nova Scotia
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	1.5	1.2	1.3	1.3
Nominal GDP	2.9	3.2	3.0	3.3
Employment	0.6	1.5	2.3	0.3
Unemployment Rate, %	8.4	7.6	6.8	6.8
Housing Starts, 000s	4.0	4.8	3.9	3.8
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	0.5	0.1	0.1	
Net Debt, % of GDP*	35.0	34.2	33.7	

Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, NS Finance.

Sources: Scotiabank Economics, Statistics Canada.

Housing markets remain hot. Halifax's sales-to-new listings ratio recently reached some of the highest rates since the early 2010s, and Nova Scotia's 5.8% y/y ytd growth in average home sales prices through May leads the provinces. As well, solid residential construction has continued into this year and new listings are on the rise in the capital city. Consequently, buyer-seller conditions have begun to edge towards more balanced territory. In line with economic growth and still-low borrowing costs, we look for healthy homebuilding through 2020 to further guard against steep home price gains as job creation slows.

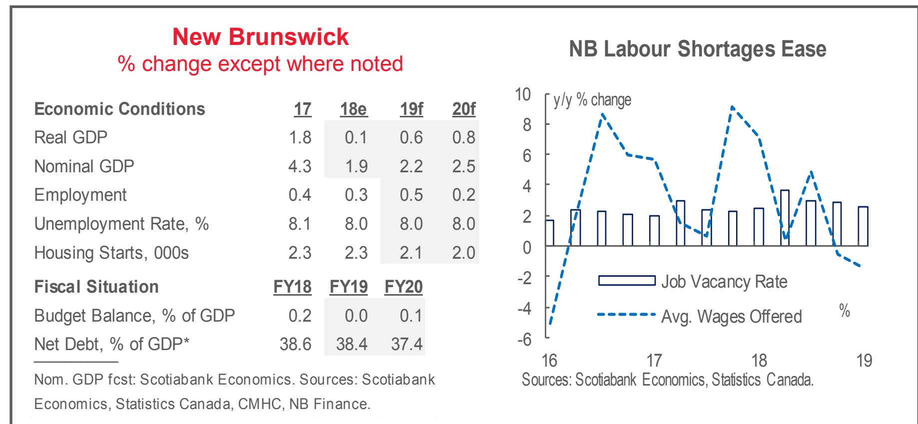
Nova Scotia's private-sector investment outlook is improved versus 2018. Work on the Halifax Convention Centre and a major transmission line ending in late 2017 posed a drag last year that is gone in 2019. Outlays related to offshore gas well plugging also persist through 2020. Shipbuilding contracts with the federal government and the proposed LNG facility in Goldboro—should it receive approval this year—will provide a more substantive boost to capital outlays beyond next year.

As in PEI, Sino-Canadian diplomatic tensions present a significant risk to the expansion at this time. Escalation of the dispute would almost certainly weigh on Nova Scotia's exports to China—concentrated in seafood and fishing—which accounted for almost 10% of the province's external merchandise shipments over the last five years.

NEW BRUNSWICK—GRAPPLING WITH SOFTER GROWTH

Our forecast for New Brunswick is largely unchanged from April. No major private-sector ventures are expected this year or next, but beyond 2020, work on the $3.1 bn Mactaquac generating station upgrade should bolster capital outlays and there is upside potential via a range of aquaculture project upgrades. Fiscal policy remains anchored by debt reduction efforts—recently rewarded by one ratings agency with a positive trend change on the Province's credit—and characterized by curtailed infrastructure outlays and departmental expense restraint. Exports are still expected to be dampened by refined petroleum shipments vis-à-vis a weak handoff from the Saint John oil refinery explosion and ensuing shutdown in late 2018 plus the softwood lumber dispute with the US.

The labour market looks to be on its way to more sustainable gains. Employment growth continues to soften, with full-time positions down 0.2% y/y ytd as of May following their best two-year climb in a decade over 2017–18, and the 0.5% total job creation forecast this year is the weakest for any province. Labour shortages, which emerged during the recent above-trend expansion, look to be abating after the province's consecutive job vacancy rate declines in the two quarters to Q1-2019. Accordingly, average offered wages have trended downward (chart) and point to more muted labour income gains in the coming months. As these developments unfold, we look for easing supply-side tightness in the Moncton and Saint John housing markets, even as home building slows.



New Brunswick
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	1.8	0.1	0.6	0.8
Nominal GDP	4.3	1.9	2.2	2.5
Employment	0.4	0.3	0.5	0.2
Unemployment Rate, %	8.1	8.0	8.0	8.0
Housing Starts, 000s	2.3	2.3	2.1	2.0

Fiscal Situation	FY18	FY19	FY20
Budget Balance, % of GDP	0.2	0.0	0.1
Net Debt, % of GDP*	38.6	38.4	37.4

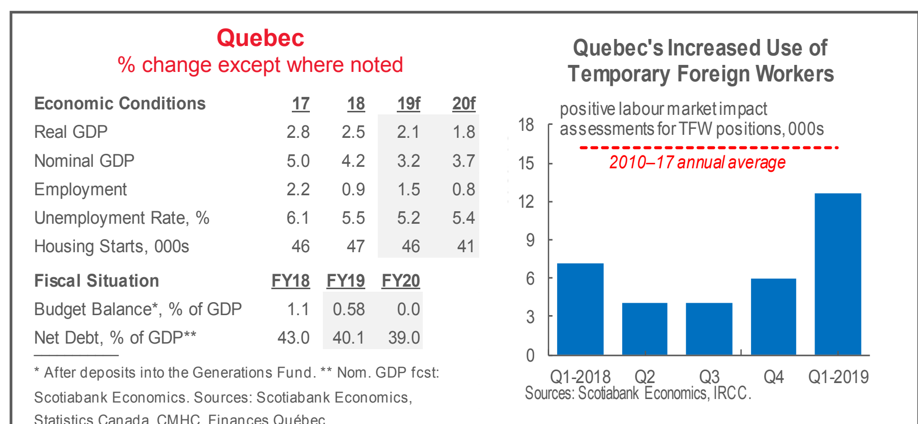
Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, NB Finance.

With the rate of natural population contraction set to accelerate as the population ages and net outflows to other regions likely to widen, international in-migration will be crucial if New Brunswick is to maintain a healthy workforce. Increases to Ottawa's newcomer targets and assistance from the Atlantic Immigration Pilot should help the province build on last year's record number of international immigrant admissions. Further attraction and retention of international students—which last year contributed to New Brunswick's highest-ever net increase in non-permanent residents—will also be needed to sustain even modest population gains going forward.

QUEBEC—HOT STREAK CONTINUES

We continue to look for a moderation of Quebec economic growth after a 2017–18 expansion well above its underlying potential rate. An upward revision to 2.1% real GDP growth in 2019 largely reflects expectations of stronger-than-anticipated household spending gains. Job creation has accelerated since its more muted start to the year, labour shortages continue to put upward pressure on wages, and retail sales, new motor vehicle purchases, and real consumer outlays have picked up versus last year. As we progress into 2020, we still look for a return to more sustainable advances, but the strong start puts 2019 growth on firmer footing.

We still anticipate more moderate provincial population growth over 2019–20 and remain skeptical of the benefits of cuts to provincial immigration targets. Thus far, Quebec has managed to maintain population gains above 1%, in part due to greater intake of temporary foreign workers (TFWs) (chart). The Province implemented policies to improve integration of temporary workers to address labour market shortages as newcomer admissions fall, and the data imply some adjustment on the part of firms seeking to fill job vacancies. Yet we suspect that the explosive recent



Quebec
% change except where noted

Economic Conditions	17	18	19f	20f
Real GDP	2.8	2.5	2.1	1.8
Nominal GDP	5.0	4.2	3.2	3.7
Employment	2.2	0.9	1.5	0.8
Unemployment Rate, %	6.1	5.5	5.2	5.4
Housing Starts, 000s	46	47	46	41

Fiscal Situation	FY18	FY19	FY20
Budget Balance*, % of GDP	1.1	0.58	0.0
Net Debt, % of GDP**	43.0	40.1	39.0

* After deposits into the Generations Fund. ** Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, Finances Québec.

pace of TFW intake cannot be sustained, and that the rate of population growth will likely slow as an easing expansion translates into wider outflows of residents to other provinces.

Population and household spending gains continue to spur housing market activity. Montreal's sales-to-new listings ratio reached an all-time high earlier this year and was the tightest local market in Canada in April. Seller-friendly conditions have persisted despite torrid homebuilding and residential investment. While shortages of vacant land are present on the Island of Montreal, our view remains that housing demand and supply will broadly realign as growth eases closer to its underlying trend rate.

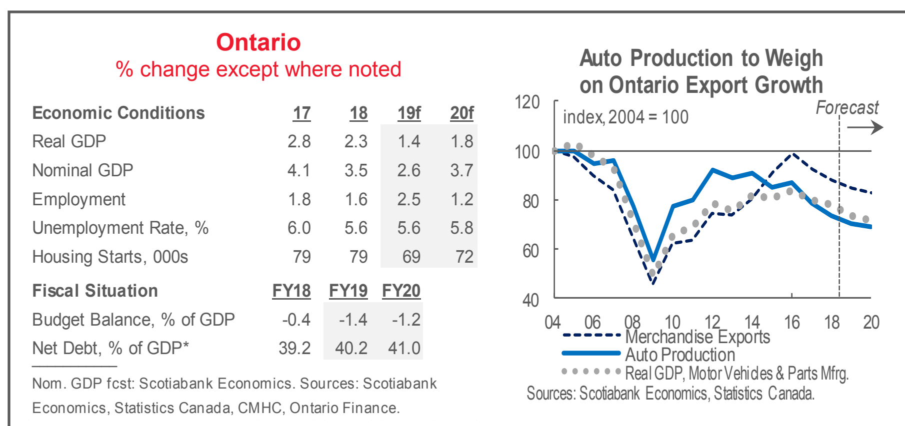
By contrast, private-sector investment has disappointed to start the year, though first quarter declines in machinery & equipment and non-residential construction outlays came with upward revisions to 2018 capital spending. Those decreases suggest more limited uptake of federal and provincial accelerated depreciation allowances than we had anticipated. Going forward, Montreal transit projects and work on a lithium mine limit downside for investment activity alongside stepped-up infrastructure spending announced in the March 2019 Quebec budget, but the first quarter nonetheless provides a soft handoff for the rest of 2019.

The province's external sector looks set for more modest growth as well. Real exports retreated nearly 15% (q/q ann.) in Q1-2019 and face obvious downside risk vis-à-vis ongoing Sino-US tensions that look to be dampening world trade volumes. A slower US expansion in 2019 should also translate into weaker international import demand while Alberta's 2019 soft patch weighs on interprovincial machinery exports, though elimination of US steel and aluminum tariffs is positive for Quebec trade.

ONTARIO—UNCERTAINTY AT HOME AND ABROAD

We have revised downward our forecast 2019 Ontario expansion for 2019 to just 1.4%, with an acceleration to 1.8% expected to ensue next year. The change principally reflects early-year housing market weakness that appears to have crimped residential building investment more than initially anticipated. We still foresee an easing of this trend as the year progresses: home sales and prices have been trending generally higher in the Greater Golden Horseshoe region, and alongside construction should continue to be supported by solid population and employment gains. Nevertheless, the poor start provides a weak handoff for the rest of 2019.

By contrast, investment looks to have begun on a stronger trajectory: Ontario machinery & equipment outlays registered strong gains in Q1-2019. Provincial measures that accelerate the pace at which firms can write off new investments—announced as of the April 11th budget—may provide further assistance later this year, though further escalation of Sino-US trade tensions continues to present downside risk for US growth and overall business sentiment in Ontario. Large construction projects—such as the second phase of the light rail transit expansion in Ottawa, the $5.7 bn Gordie Howe International Bridge in Windsor, and a $2 bn petrochemical plant in Sarnia—should also lift provincial investment.



Ontario
% change except where noted

Economic Conditions	17	18	19f	20f
Real GDP	2.8	2.3	1.4	1.8
Nominal GDP	4.1	3.5	2.6	3.7
Employment	1.8	1.6	2.5	1.2
Unemployment Rate, %	6.0	5.6	5.6	5.8
Housing Starts, 000s	79	79	69	72
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	-0.4	-1.4	-1.2	
Net Debt, % of GDP*	39.2	40.2	41.0	

Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, Ontario Finance.

Sources: Scotiabank Economics, Statistics Canada.

Medium-term trade prospects are dominated by a forecast decline in vehicle production. Output of motor vehicles and parts—a segment that has historically accounted for more than 30% of the province's merchandise exports—declined for the second consecutive year in 2018, and should continue to move in line with production (chart) and expectations of softer US vehicle sales.

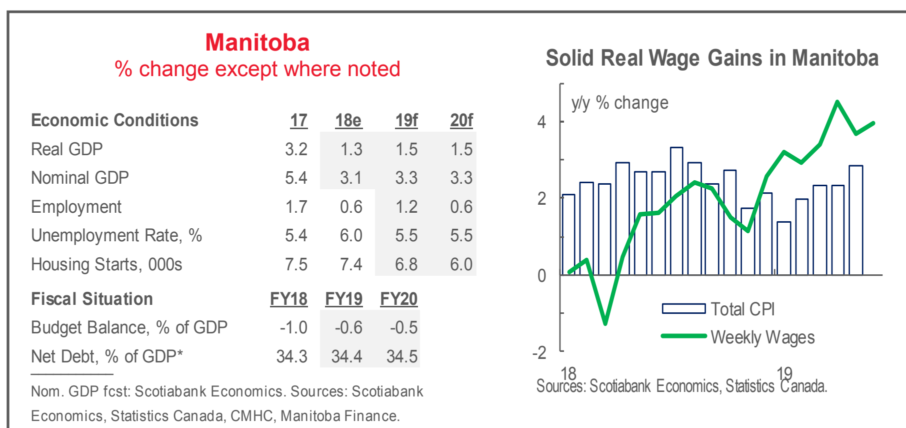
We hold that belt-tightening efforts outlined in the April 2019 budget established some credibility with the province's bondholders, but backlash to the plan—as more details of public sector cuts emerged—has been fierce. That has created some political uncertainty, the fiscal policy implications of which we continue to monitor closely. Broadly speaking, we support attention to debt and deficit management as Ontario progresses into an advanced stage of its economic cycle. However, we also recognize the need to appropriately balance these priorities against borrowing requirements for infrastructure and core services expansions with the population set to rise and age rapidly in the coming years.

While we do not anticipate at this time that provincial austerity will significantly derail growth, it does have near-term ramifications for labour markets. Full-time job creation is up a solid 2.4% y/y ytd, but the health care and education sectors—major drivers of the last 12 months' gains—face limited prospects amid planned public-sector hiring restraint. By the same token, public-sector salary freezes offer little scope for additional rises in earnings in those industries, while job vacancies push wages higher in other sectors.

MANITOBA—TRADE RISK CLOUDS LARGELY STEADY OUTLOOK

Slower major project activity continues to dominate the outlook. Completion of Manitoba's portion of the Line 3 pipeline as well as the BiPole III Transmission Line will pose a drag on investment spending this year, as will the winding down of capital outlays next year on the Keeyask Generating Station. Smaller ventures—which include two food processing plants, the Manitoba-Minnesota transmission line, and several mixed-use developments in Winnipeg—should put a floor under private-sector investment activity.

The household sector outlook is modestly improved. Year-to-date job creation is firm, albeit tilted towards part-time positions. After labour market tightness in much of 2018, wage gains have significantly outpaced inflation (chart). Excluding retail purchases of motor vehicles and parts, which have fallen back in line with automobile sales in 2019, Manitoba's retail sales lead the provinces with 5.3% y/y ytd gains. However, Manitoba also recently witnessed its largest four-quarter outflow of residents to other provinces since 1990. That rate of out-migration should stabilize, but still cap population gains at just 1.2% in each of the next two years—versus a rate nearer 1.5% in 2017–18—and limit upside for consumer outlays.



Manitoba
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	3.2	1.3	1.5	1.5
Nominal GDP	5.4	3.1	3.3	3.3
Employment	1.7	0.6	1.2	0.6
Unemployment Rate, %	5.4	6.0	5.5	5.5
Housing Starts, 000s	7.5	7.4	6.8	6.0
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	-1.0	-0.6	-0.5	
Net Debt, % of GDP*	34.3	34.4	34.5	

Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, Manitoba Finance.

Sources: Scotiabank Economics, Statistics Canada.

Shortly after fulfilling a campaign pledge to reduce the provincial sales tax by 1 ppt, the government called an early election for this September. The cut—which took effect on July 1—should lend some support to consumer outlays and will form a key plank of the campaign strategy. It comes against a backdrop of significant expenditure restraint as the government progresses with public sector transformation initiatives.

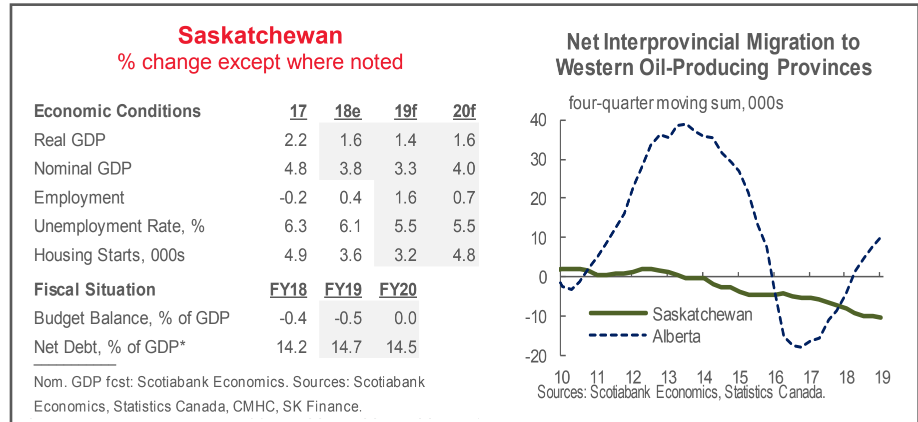
Escalation of diplomatic tensions with China represent the most significant trade development for Manitoba. Import restrictions on Canadian meat and canola do not bode well for two important provincial exports, and ongoing disputes will likely hurt shipments of soybeans to China—normalization of which we count on for a Manitoba trade rebound this year—as well. On a more positive note, trade agreements with the Asia-Pacific region and the EU broadly offer new market access, and Manitoba will fully integrate into the New West Partnership trade pact with Saskatchewan, Alberta, and BC on Jan. 1, 2020.

SASKATCHEWAN—INVESTMENT SOFTENS WHILE LABOUR MARKET RALLY CONTINUES

A modest downward revision to our growth forecast for Saskatchewan this year largely reflects a more muted investment outlook. Scaled-back expenditure plans across several steam-powered oil projects through 2022 are a key factor behind the change, and speak to widespread apprehension regarding pipeline transportation issues in the oil and gas industry. Those capital outlay reductions are expected to build on an already soft trajectory: completion of the $1.9 bn Regina Bypass project and $680 mn Chinook Power Station are anticipated in 2019 and the uranium sector is reeling from the McArthur mine closure last year.

The good news is that hiring has largely strengthened as expected, and we have raised our employment growth forecast for 2019 to 1.5%. Full-time job creation is up 2.1% y/y ytd as of June 2019—a pace that, if maintained, would represent the steepest annual climb since 2013—with gains across most major goods and services industries. That strength has contributed to hefty increases in home purchases in Regina and Saskatoon following two consecutive annual contractions. Wages have yet to pick up significantly, but should see more substantial advances as hiring this year and next translate into tighter labour markets.

Unfortunately, Saskatchewan has struggled to attract residents from other provinces. Outflows continue to widen, in stark contrast to Alberta, where out-migration to other Canadian regions spiked during the last commodity price downturn but has since reversed (chart). More robust job creation this year will likely stem the tide as greater intake of international newcomers and effective labour market immigration support household formation. However, the more moderate population growth witnessed of late has prevented—and should continue to prevent—a strong upswing in residential construction this year.



Saskatchewan
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	2.2	1.6	1.4	1.6
Nominal GDP	4.8	3.8	3.3	4.0
Employment	-0.2	0.4	1.6	0.7
Unemployment Rate, %	6.3	6.1	5.5	5.5
Housing Starts, 000s	4.9	3.6	3.2	4.8
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	-0.4	-0.5	0.0	
Net Debt, % of GDP*	14.2	14.7	14.5	

Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, SK Finance.

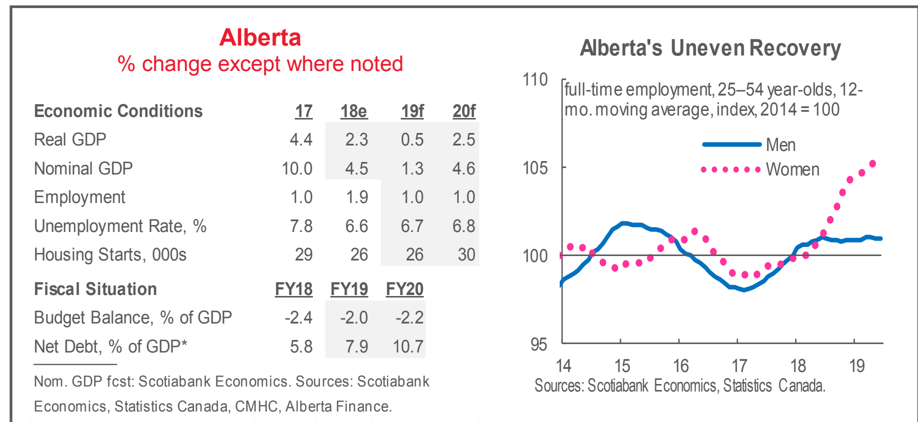
Sources: Scotiabank Economics, Statistics Canada.

Trade prospects remain mixed. China's decision to block Canadian canola seed imports has obvious adverse consequences for Saskatchewan agricultural exports, while Indian tariffs on Canada's exports of pulses represent another headwind for the sector. However, external potash shipments should benefit from stepped-up production at mines in Bethune and Rocanville.

ALBERTA—AWAITING A NEW BUDGET AMID PROLONGED RECOVERY

Worse-than-anticipated conditions—anchored in oil and gas investment but spread somewhat beyond that industry—have prompted a further downward revision to Alberta's 2019 growth forecast. Firms have scaled back capital outlays in response to uncertainty vis-à-vis insufficient pipeline transportation capacity, a trend reflected in May active drilling rigs' plunge to the second-lowest-ever recorded level for that month. Province-wide retail and automobile purchases have slowed substantially versus last year, as has homebuilding activity, though home sales in major cities look to have bottomed out.

Markets continue to adjust to government-mandated oil production cuts put in place to alleviate the differential between the Western Canada Select (WCS) price and the West Texas Intermediate (WTI) benchmark. In response to the policy, WCS prices have risen beyond the level consistent with transportation costs, which has made rail transport uneconomical and crimped oil exports. While this should prompt further relaxation of output caps as the year progresses, with the Line 3 pipeline delayed, and completion of the TransMountain pipeline unlikely until at least 2022, sustainable supply-demand balance in the oil patch—and a more stable investment climate—looks to be at least a few years off.



Alberta
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	4.4	2.3	0.5	2.5
Nominal GDP	10.0	4.5	1.3	4.6
Employment	1.0	1.9	1.0	1.0
Unemployment Rate, %	7.8	6.6	6.7	6.8
Housing Starts, 000s	29	26	26	30
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	-2.4	-2.0	-2.2	
Net Debt, % of GDP*	5.8	7.9	10.7	

Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, Alberta Finance.

Sources: Scotiabank Economics, Statistics Canada.

We now expect Alberta to recuperate its 7.4%, 2015–16 output contraction by 2020 rather than later this year, but the province should skirt recession in 2019. Diversification away from oil and gas remains a key long-term challenge, but after a two-year, 7% expansion over 2017–18—more than any other jurisdiction—the energy sector exerts a smaller influence on the economy as a whole—both for output and jobs—than it did in the lead-up to the last downturn. Unlike in past downturns, full-time hiring continues in manufacturing and in much of the services sector. Alberta also continues to draw skilled newcomers and migrants from other provinces, albeit at a more subdued pace than during the last oil price boom.

Nevertheless, there is no question that some segments of the population are feeling pain during the Alberta economy's ongoing transition towards more services-oriented growth. Full-time employment for prime-working age men has yet to fully recover from

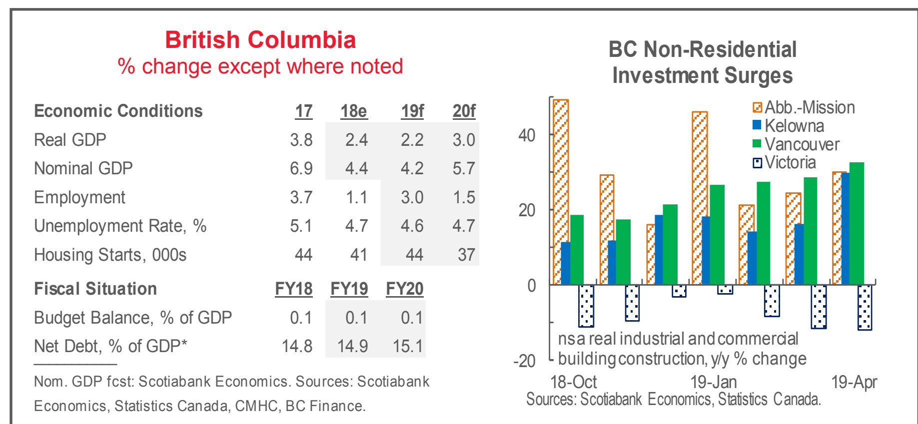
the 2015–16 downturn (chart), and there is evidence that younger, rural, and less educated workers have not realized the same benefits as other workers during the expansion and upswing in job creation witnessed since 2017.

Motivated in part by these challenges, the new government's first budget—to be tabled this fall—promises a fundamental shift in fiscal policy. To spur investment, the corporate income tax rate will be reduced by 4 ppts—to 8%—over four years. Program spending will be held flat through FY23 to balance the books by that year, with previously planned infrastructure outlay increases likely to be throttled back. We support the focus on investment attraction and cost control, but factors such as a more competitive US shale patch mean that a return to 2010–14 conditions is unlikely.

BRITISH COLUMBIA—HOUSING MARKET SHOWS SIGNS OF BOTTOMING OUT

BC is still forecast to lead the provinces in both 2019 and 2020 with respective real GDP advances of 2.2% and 3%. We also look for job creation of 3% this year and 1.5% in 2020; again, both rates are expected to lead the provinces. Full-time employment continues to trend higher following a modest slump mid-last year, and is now up a solid 2.3% versus the January to May 2018 period.

Work on the $40 bn Kitimat LNG export terminal continues to dominate the outlook, but we now build in a smaller incremental boost via capital outlays than in April. The revision reflects the magnitude of the venture and the trend towards major project delays across Canada. Upside remains via other LNG facilities currently under consideration.



British Columbia
% change except where noted

Economic Conditions	17	18e	19f	20f
Real GDP	3.8	2.4	2.2	3.0
Nominal GDP	6.9	4.4	4.2	5.7
Employment	3.7	1.1	3.0	1.5
Unemployment Rate, %	5.1	4.7	4.6	4.7
Housing Starts, 000s	44	41	44	37
Fiscal Situation	**FY18**	**FY19**	**FY20**	
Budget Balance, % of GDP	0.1	0.1	0.1	
Net Debt, % of GDP*	14.8	14.9	15.1	

Nom. GDP fcst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, BC Finance.

Non-residential construction outside of the LNG megaproject is another bright spot in the province's outlook. Work on the Site C Dam continues and the $1.4 bn Pattulo Bridge replacement project recently passed an environmental assessment. Tech sector activity, reflected in BC's 31.4% rise in information and communications technology output—more than any other province—has helped to contribute to double-digit y/y gains in industrial and commercial building investment across Vancouver, Abbotsford-Mission, and Kelowna (chart). We expect elevated activity levels to persist this year and next in the sector, though labour shortages in the construction industry could delay project timelines.

The housing market, having dragged significantly on growth since 2018 amid a slowdown induced by rising interest rates and a range of federal and provincial policy measures, is expected to recover as the year progresses. Home sales in Vancouver surged 23.9% (sa m/m) in May—the strongest monthly gain since 2007—and spiked in Victoria. However, regardless of whether May represents a turning point, strong demand-side factors should support income growth and household formation to propel further gains in home buying activity.

Despite the downturn in sales activity, homebuilding remains strong. Vancouver housing starts reached an all-time high in May, BC-wide new listings are up strongly to begin the year, and per-capita completed and unabsorbed dwellings have been climbing steadily across the province since mid-2018. A greater stock of available housing than during the 2015–16 ramp-up in home prices should provide a bulwark against further erosion of affordability as sales normalize.

BC's trade outlook, on the other hand, has worsened. US duties remain on imports of softwood lumber—one of the province's key exports—and should weigh on demand south of the border. As well, efforts to replenish forest lands following the mountain pine beetle infestation and severe wildfires in each of the last two years should also continue to result in cutting limits and low log inventories for firms operating in the forest products sector. Diplomatic tensions with China present downside risk for exports writ large, but are of particular concern for the BC tourism industry, where non-US residents account for an increasing share of overnight visits.

Provincial Forecast Summary

(annual % change except where noted)

Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2000–17	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7
2017	3.0	0.9	3.5	1.5	1.8	2.8	2.8	3.2	2.2	4.4	3.8
2018e	1.9	-2.7	2.6	1.2	0.1	2.5	2.3	1.3	1.6	2.3	2.4
2019f	1.4	2.0	2.1	1.3	0.6	2.1	1.4	1.5	1.4	0.5	2.2
2020f	2.0	0.8	2.0	1.3	0.8	1.8	1.8	1.5	1.6	2.5	3.0
Nominal GDP											
2000–17	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
2017	5.6	4.3	4.8	2.9	4.3	5.0	4.1	5.4	4.8	10.0	6.9
2018e	3.6	0.5	4.6	3.2	1.9	4.2	3.5	3.1	3.8	4.5	4.4
2019f	2.7	3.0	4.1	3.0	2.2	3.2	2.6	3.3	3.3	1.3	4.2
2020f	4.2	3.9	3.9	3.3	2.5	3.7	3.7	3.3	4.0	4.6	5.7
Employment											
2000–17	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
2017	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7
2018	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
2019f	2.1	1.9	1.4	2.3	0.5	1.5	2.5	1.2	1.6	1.0	3.0
2020f	1.0	0.2	0.8	0.3	0.2	0.8	1.2	0.6	0.7	1.0	1.5
Unemployment Rate (%)											
2000–17	7.1	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
2017	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019f	5.7	11.8	9.0	6.8	8.0	5.2	5.6	5.5	5.5	6.7	4.6
2020f	5.9	11.6	9.0	6.8	8.0	5.4	5.8	5.5	5.5	6.8	4.7
Housing Starts (units, 000s)											
2000–17	200	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
2017	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019f	202	1.0	0.9	3.9	2.1	46	69	6.8	3.2	26	44
2020f	199	1.3	0.8	3.8	2.0	41	72	6.0	4.8	30	37
Motor Vehicle Sales (units, 000s)											
2000–17	1,657	29	6	48	38	413	635	47	45	216	180
2017	2,041	33	9	59	42	453	847	62	56	245	235
2018	1,984	28	8	51	38	449	853	67	47	226	217
2019f	1,935	30	9	51	39	447	813	60	49	220	217
2020f	1,915	30	9	50	37	440	800	56	48	217	228
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2017	-18,957	-1,148	-1	151	-117	2,361	-2,435	-789	-1,218	-10,784	2,727
2018	-18,961	-911	1	230	67	2,622	-3,672	-695	-303	-8,023	301
2019e	-11,815	-522	14	28	5	2,500	-11,700	-470	-380	-6,711	374

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund transfers.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.