#1 MEILLEUR PRÉVISIONNISTE GLOBAL – CANADA
FOCUS ECONOMICS ANALYST FORECAST AWARDS 2022
#1 BEST OVERALL FORECASTER – CANADA

ECONOMIC VIEWPOINT

# All Canada's provinces to feel fight against inflation, some will go into recession

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- In this first-ever Desjardins Economic Studies Provincial Outlook, we provide detailed analysis of the economies and finances in all of Canada's provinces, as of our September 2022 Economic and Financial Outlook.
- Just as we recently projected at the national level, no province will be immune to the growth-sapping effects of sharply rising interest rates, elevated inflation, rapidly correcting housing markets and a deteriorating global expansion over the next two years.
- Ontario, British Columbia (BC) and the Maritimes appear most exposed to the housing downturn, and that is reflected in our forecasts.
- By contrast, commodity-producing regions with their more affordable housing should get a boost from higher incomes and nominal export values even as oil prices moderate approaching 2024. These regions will likely also top provincial growth rankings through 2023.
- Major project activity—particularly in BC and Saskatchewan—and rebounding oil and auto production will be bright spots against an otherwise downcast economic backdrop.
- Extremely tight labour markets will provide a measure of protection against deep, widespread job losses as the Canadian economy enters recession territory.
- After revenue windfalls in many provinces, fiscal policy will likely become more stimulative as mid-year budget updates are released this fall. However, this will probably hinder efforts to contain price pressures, and we have yet to see the full effects of inflation on public finances.

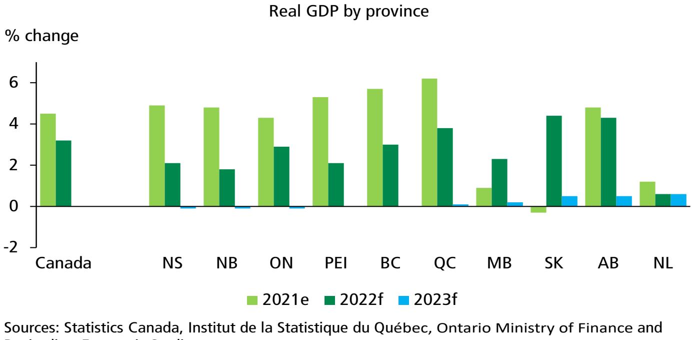

## MAJOR TRENDS AFFECTING THE PROVINCES

### Broad-Based Impacts from Inflation and Rising Interest Rates

We expect most subnational Canadian jurisdictions to see slower growth over the next two years. No province will be immune to the dampening effects of rising interest rates, elevated inflation, rapidly correcting housing markets and a deteriorating global expansion (graph 1).

During past periods of elevated inflation, there hasn't been much variation in total price growth across provinces. We expect this to be the case again through 2023, as evidenced by the data released to date.

**GRAPH 1**
**In a weak growth environment, oil-producing regions will fare the best**




Sources: Statistics Canada, Institut de la Statistique du Québec, Ontario Ministry of Finance and Desjardins, Economic Studies

**Housing Market Correction**

If prior downturns are any indication, the ongoing housing market correction will unfold in three phases. The first phase will involve a drop in home sales and prices. The second phase will hit construction activity, with additional weakness in renovation spending. The third phase will include a broader spillover into other industries, especially the financial services sector.

Impacts from the housing correction will differ depending on each province's exposure to each phase, but the economies of Ontario, BC and Nova Scotia are the most vulnerable given their reliance on housing activity. At this stage, we also expect other Maritime provinces to see a significant decline in home prices as the return to the office reduces housing demand from interprovincial migration.

**Easing but Still Elevated Commodity Prices**

Commodity-producing jurisdictions, particularly Alberta and Saskatchewan, are best positioned to weather the storm of higher rates and diminished housing activity. Though elevated crude values have been contributing to inflation, they also provide an offset by boosting incomes and nominal export values. And while prices for most commodities have cooled significantly since spiking in early 2022 at the outset of the war in Ukraine, we expect them to remain elevated relative to pre-pandemic levels through 2023.

We expect these price effects to boost profitability, incomes and, in some cases, investment and production over the next two years. Many commentators have noted the opportunity for Canadian commodities to replace those produced in Russia. While there's certainly long-run upside potential on this front, establishing those trade ties would require significant diplomatic efforts and investments in new production and transportation capacity.

**More Stimulative but Increasingly Inflationary Fiscal Policy**

Hot inflation and a better-than-anticipated economic recovery have contributed to revenue windfalls nationwide. Several provinces will likely report further improvements in their financial trajectories when they release their mid-year fiscal updates this fall.

Many governments have already succumbed to the political pressures typically seen in inflationary environments, offering broad tax and fee relief and transfers to households to allay cost of living concerns. With inflation still high and fiscal room more abundant, others will likely either follow suit or enhance previously announced measures in the coming round of financial blueprints.

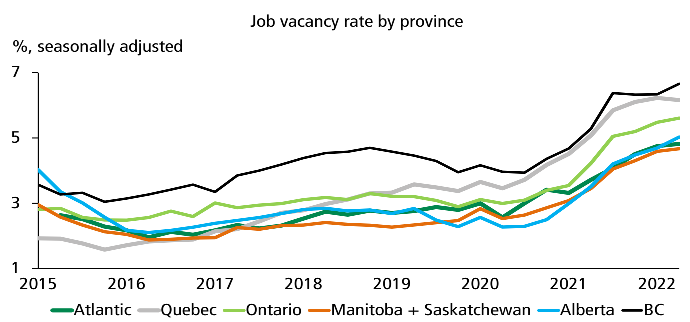
The danger—beyond juicing consumer demand and exacerbating price pressures—is that we have only begun to see the impacts of inflation on the spending side of the ledger. With coffers likely to be considerably fuller than at budget time, keeping policy sufficiently restrained and targeted will be key to weathering the impending economic storm. So will continued attention to longer-run fiscal stability goals.

**Population Growth**

Provincial population flows have shifted since the start of the pandemic. International immigration—a source of significant headcount and economic gains in many provinces—fell back significantly. There was also a notable increase in net outflows from Ontario to other provinces in response to the widespread adoption of remote work as well as affordability pressures in Ontario's major centres.

We expect some reversal of these trends as return to work reduces the practicality of moving to smaller communities and the lifting of travel restrictions enables more international immigrant landings. Yet we still expect population trends to deviate somewhat from historical patterns. For one, the movement from Atlantic Canada to Western Canada that typically occurs during commodity price booms is not yet showing up in the data, though the latter region has benefited from Ontario outflows. Moreover, Canada's population continues to age rapidly, weighing on economic growth potential, impacting where people live and work, and creating cost pressures for health care systems still grappling with the COVID-19 pandemic.

**GRAPH 2**
**Extremely tight job markets should limit provincial job losses**




Sources: Statistics Canada and Desjardins, Economic Studies

**Very Tight Labour Markets**

At the time of writing, the unemployment rate in nearly every oil-consuming province is at or near multi-decade lows, and oil-producing provinces are not far behind. All jurisdictions have reported record-high job vacancy rates (graph 2) and heightened wage pressures. These are a product of the stronger-than-anticipated recovery, lingering pandemic supply-demand imbalances, and an accelerating rate of retirement among older workers.

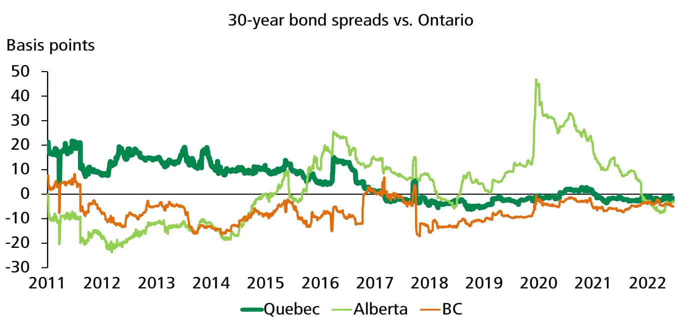
While these forces are potentially inflationary and have been used to justify aggressive monetary tightening, they could also help mitigate the labour market fallout nationwide as the Canadian economy enters recession territory. The risk of layoffs is lower in an environment of widespread labour shortages. Wage gains could also help some households supplement the savings cushion they built during the pandemic and absorb some of the cost-of-living increases.

**Other Factors Contributing to the Outlook**

In a large, diverse country like Canada, idiosyncratic events in individual regions can have disproportionate impacts on their respective economies. We're keeping an eye on several factors in the current forecast:

- In some provinces, large projects that generate significant capital expenditures contribute to the forecast expansion. In contrast, the end of project investments in other parts of the economy will no longer provide a tailwind to growth, though increased production and export capacity adds to the level of GDP.
- Improved production timelines—including for oil, agricultural products and automobiles following pandemic-induced shutdowns—also offer offsets to the effects of interest rate increases, inflation, and slowing global demand.
- Geopolitical risks remain at both the provincial and national levels. These include a possible escalation of tensions between China and Taiwan, the volatility of the war in Ukraine, rising protectionism in the US, and financial market fallout induced by European and Chinese economic conditions.
- And while it's too early to determine Hurricane Fiona's impact on the Atlantic Canadian economy, the extent of the damage and reduction in economic activity will become clear in the coming months.

**GRAPH 3**
**Quebec, Alberta and BC have traded through Ontario in most of 2022**




Sources: Bloomberg and Desjardins, Economic Studies

**Big Provinces All Trading through Ontario**

So far this year, many large provinces have traded through Ontario. March 2022 to present is the longest period on record in which the other three large provinces have all traded through Ontario (graph 3). (Bloomberg data are available from 2011 to present.) Alberta's long bonds have traded through Ontario's since the war in Ukraine drove oil prices into the stratosphere. (The spread has since widened as crude weakened.) Meanwhile, multi-year fiscal outperformance has tightened Quebec and BC spreads. New Brunswick yields have also traded tighter to Nova Scotia than at any point in the last decade, supported by positive credit rating assessments and by fiscal outperformance since New Brunswick's 2021 budget was released.

**Recession or Not?**

In a housing-led economic downturn, Ontario will likely see one of the most severe slowdowns, though recessionary signs are also flashing in Quebec despite a strong start to 2022. We also think Maritime economies are exposed given their vulnerability to real estate and construction activity and our view that pandemic rates of interprovincial in-migration are unsustainable. Commodity-producing regions look likely to avoid recession this year and next.

## NEWFOUNDLAND AND LABRADOR

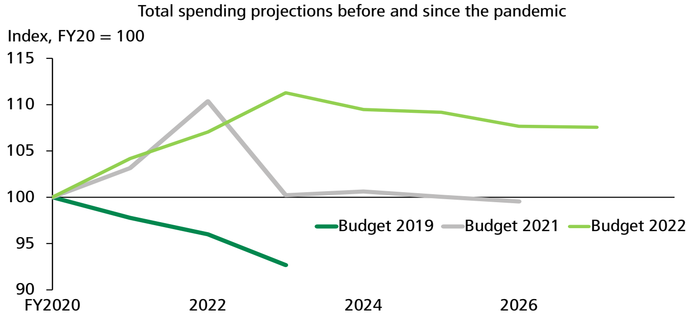
Newfoundland and Labrador's (NL) expansion has long been tied to production and major project activity in the oil and gas sector. The next two years will be no exception. The Terra Nova offshore oil field—shuttered since 2020 and responsible for 12% of the province's crude output in 2019—is set to restart later this year. The West White Rose offshore oilfield extension project is also expected to resume in 2023. Our forecast therefore assumes no significant growth slowdown in the province next year, even as interest rate hikes and a softer global expansion bite.

In addition to this near-term tailwind, there's longer-run upside potential across NL's natural resources sectors. The Bay du Nord deep water offshore oil venture has gained environmental approval and is awaiting a final investment decision. Meanwhile the $1.7 billion expansion of the Voisey's Bay underground nickel, copper and cobalt mine is ongoing. Project proponent Vale recently signed a deal with Tesla that would see the mine provide nickel for electric vehicle production.

Though The Rock's economy is more tied to oil and gas than that of any other Canadian province, we don't expect its mid-year fiscal update to reveal as large an improvement in budget balances as Alberta's and Saskatchewan's. Royalty receipts should get a boost from stronger oil prices, but crude production, investment and employment in NL are dominated by large offshore projects. That means receipts are less responsive to price movements than in other oil-producing jurisdictions.

We therefore expect that in the coming years, the provincial government will continue to focus on controlling expenditures (graph 4) and reducing its debt burden, which is the highest of any province as a share of GDP. That remains a tall order, as NL's oldest-in-the-nation population weighs on long-run growth prospects and contributes to health care costs.

**GRAPH 4**
**NL has scaled back plans for spending restraint, but remains focused on it**




Sources: Newfoundland and Labrador Department of Finance and Desjardins, Economic Studies

**TABLE 1**
**Newfoundland and Labrador: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | 3.3 | -5.4 | 1.2 | **0.6** | **0.6** |
| **Total inflation rate** | 1.0 | 0.2 | 3.7 | **6.4** | **2.9** |
| **Employment growth** | 1.2 | -5.9 | 3.0 | **3.5** | **1.0** |
| **Unemployment rate** | 12.3 | 14.1 | 12.9 | **11.1** | **11.9** |
| **Retail sales growth** | 0.0 | 1.8 | 11.0 | **5.7** | **2.5** |
| **Housing starts (thousands of units)** | 0.9 | 0.8 | 1.0 | **1.6** | **1.1** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

## PRINCE EDWARD ISLAND

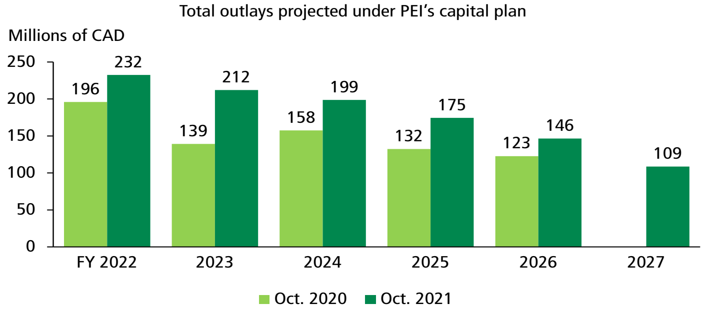
Any discussion of Prince Edward Island's (PEI) economic prospects must consider immigration trends. Conditions look to be improving on this front. In the five years before the pandemic, newcomers contributed more to population growth in PEI than in any other province, fuelling a nation-leading rate of headcount gains over that period. So far this year, admissions have generally surpassed pre-COVID-19 levels. We expect further gains to be more concentrated in new arrivals this year and next as travel restrictions are lifted and program backlogs clear.

While immigration is positive for household formation, much more modest interprovincial migration to the island will likely contribute to a sharp decline in home prices over the next two years. Movement from other provinces spiked to record levels in 2020 and 2021, supported primarily by more affordable housing than in other jurisdictions and the prevalence of remote work arrangements.

Still, we suspect that PEI will unveil an improved fiscal position when it presents its financial update this fall. Revenues in particular were likely boosted by inflation and a stronger-than-anticipated economic recovery. If recent years' fiscal updates are any indication, the province could once again increase infrastructure spending (graph 4), with a focus on health and education facility upgrades.

On trade, PEI is susceptible to the effects of a global economic slowdown. Its key pharmaceutical, aerospace and food processing sectors have ties to Europe, the US and Asia, so they will feel some pain despite export values that started the year off strong. For staple potatoes, a dry spell late in the growing season may hold back production, though earlier harvest conditions were better.

**GRAPH 5**
**PEI has used past revenue windfalls to boost infrastructure spending**




Sources: PEI Department of Finance and Desjardins, Economic Studies

**TABLE 2**
**Prince Edward Island: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | 4.7 | -1.7 | 5.3 | **2.1** | **0.0** |
| **Total inflation rate** | 1.2 | 0.0 | 5.1 | **8.8** | **3.9** |
| **Employment growth** | 3.4 | -3.2 | 3.7 | **7.4** | **0.9** |
| **Unemployment rate** | 8.6 | 10.6 | 9.4 | **7.3** | **8.3** |
| **Retail sales growth** | 3.9 | 1.1 | 19.0 | **8.6** | **2.5** |
| **Housing starts (thousands of units)** | 1.5 | 1.2 | 1.3 | **1.0** | **0.6** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

## NOVA SCOTIA

Nova Scotia has arguably benefited more from interprovincial migration and the effects on the housing market than any other jurisdiction in Canada. Net migration from other provinces reached its highest level since at least 1961 in Q2-2022. We expect that these trends will normalize over the next two years, thus the relatively downbeat forecast for the province.

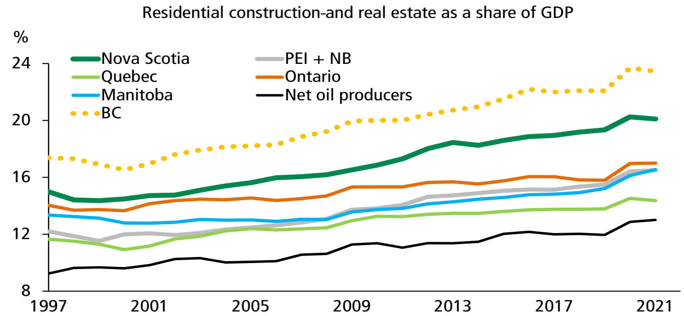
Home purchases and construction have held up well so far, but the province is particularly vulnerable to a housing downturn. In 2021, residential construction and real estate rental and leasing made up more than 20% of provincial output. Only BC has a higher figure (graph 6). The finance and insurance industry also accounts for a higher share of GDP in Nova Scotia than in most other provinces.

Non-residential investment prospects are more auspicious. Increased infrastructure spending on health care facilities and highways in Budget 2022 should help construction activity. And in the longer run, federal government shipbuilding contracts are likely to support investment and employment in the manufacturing sector.

Like PEI, Nova Scotia could see its geographically diversified trade flows hurt by global economic weakness. Seafood exports could suffer amid projected slowdowns in Europe, China and Japan.

Potential challenges notwithstanding, Nova Scotia will remain an attractive destination to live and work going forward. The province remains the East Coast's most diversified economy and home to the region's high-wage services hub. International immigration, which is up more in percentage terms in Nova Scotia than in any other province so far in 2022, should sustain population growth. Moreover, strong revenue gains recently drove a surprise surplus in FY22, and the province's net debt-to-GDP ratio fell to its lowest level in 30 years. These results set up Nova Scotia for fiscal outperformance and could help the government respond to a pronounced housing downturn.

**GRAPH 6**
**Nova Scotia is exposed to the effects of a potentialhousing downturn**




Sources: Statistics Canada and Desjardins, Economic Studies

**TABLE 3**
**Nova Scotia: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | 3.0 | -2.5 | 4.9 | **2.1** | **-0.1** |
| **Total inflation rate** | 1.6 | 0.3 | 4.1 | **7.4** | **3.3** |
| **Employment growth** | 2.3 | -4.7 | 5.4 | **3.0** | **0.6** |
| **Unemployment rate** | 7.3 | 9.7 | 8.4 | **6.8** | **7.1** |
| **Retail sales growth** | 2.6 | -2.0 | 16.3 | **6.0** | **2.0** |
| **Housing starts (thousands of units)** | 4.7 | 4.9 | 6.0 | **5.8** | **4.0** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

## NEW BRUNSWICK

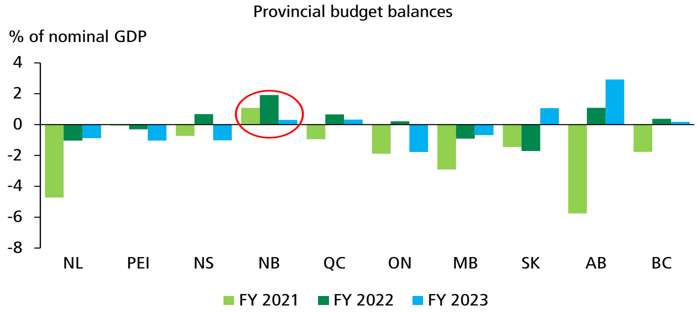
Like the other Maritime provinces, New Brunswick will likely see more moderate in-migration from other provinces. This will weaken household formation, driving an outsized drop in residential investment and economic growth. According to our latest residential real estate outlook, New Brunswick will have the deepest peak-to-trough decline in average home prices after posting the sharpest price run-up of any jurisdiction from late 2019 to early 2022.

Exports from petroleum refineries are by far New Brunswick's number one trade product, and they spiked early this year on surging fuel prices. As a result, gains in the province's total nominal shipments trail only those of Alberta and Saskatchewan so far in 2022. Pulp and paper export values are also up strongly to begin the year. Though we expect prices of both commodities to ease as the global expansion and US housing market slow, they should remain at historically elevated levels this year and next. This should provide support for producer incomes in New Brunswick.

With few major projects waiting in the wings, short-term prospects for non-residential investment are modest. But late last year, the province announced a boost in infrastructure outlays for FY23–24, unlocking funds for roads, bridges, schools and hospitals. And in March, a strategic plan was released in conjunction with other provincial governments to grow the small nuclear reactor industry. That too has some upside potential.

The province's public finances have been resilient to COVID-19 and are an area of notable strength. New Brunswick is the only province that kept its books balanced throughout the pandemic (graph 7). Budget 2022 projects surpluses through FY25, and its forecast 29% net debt-to-GDP ratio for FY23 is the lowest of any jurisdiction east of Saskatchewan. These are impressive feats for a province with a rapidly aging population. This should leave fiscal room to address the effects of any economic downturn.

**GRAPH 7**
**New Brunswick ran in the black throughout the pandemic**




Sources: Statistics Canada, provincial budget documents and Desjardins, Economic Studies

**TABLE 4**
**New Brunswick: Major economic indicators**

| ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED) | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **Real GDP growth** | 1.3 | -3.2 | 4.8 | **1.8** | **-0.1** |
| **Total inflation rate** | 1.7 | 0.2 | 3.8 | **7.4** | **3.2** |
| **Employment growth** | 0.7 | -2.6 | 2.6 | **1.7** | **0.3** |
| **Unemployment rate** | 8.2 | 10.0 | 9.0 | **7.6** | **8.1** |
| **Retail sales growth** | 2.1 | 1.1 | 12.6 | **8.7** | **2.5** |
| **Housing starts (thousands of units)** | 2.9 | 3.5 | 3.8 | **4.7** | **3.4** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

## QUEBEC

Quebec's economic growth slowed noticeably this spring following a very strong start to the year. On an annualized basis, real GDP growth weakened from 5.9% in Q1 to 1.0% in Q2. It appears that Quebec's long-awaited economic downturn has only just begun, and the coming quarters will be even more challenging.

The Desjardins Leading Index (DLI) tends to anticipate turning points in the Quebec economy by a few months. It plunged 2.5% in July, its fifth straight monthly decline (graph 8). It's now in pre-recession territory and sending a clear message. Consequently, Quebec could see a recession by early 2023.

While Quebec consumers continued to spend more in the first half of this year, challenges are mounting for households. We expect consumer spending growth to cool in the coming months or even turn negative as consumer confidence continues to weaken and interest rates continue to rise. Persistently high inflation is also eroding incomes. However, elevated saving rates of nearly 10%, a very tight labour market and the provincial government's inflation relief measures should limit the damage.

Rising mortgage rates have been taking a toll on the housing market since this spring. Sales are down sharply, sellers have lost the upper hand, and bidding wars are becoming a thing of the past. In August, the average home price in Quebec was 4.1% below its April peak. Although the correction to date has been less severe than in many other provinces, we expect the drop to continue until late 2023 and bring down prices 15% to 20%. New construction and renovation spending will also remain a drag on the economy in the coming quarters.

Despite weaker small business confidence and a gloomier global and North American economic outlook, Quebec's business investment and exports held up in the first half of this year, with both posting strong growth in the second quarter. We expect the situation to deteriorate over the next three to six months, however, as Canadian and global economic growth moderate more significantly.

**GRAPH 8**
**July's DLI decline signals the start of a real GDP contraction in Quebec**


Source: Desjardins, Economic Studies

**TABLE 5**
**Quebec: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | 2.8 | -5.5 | 6.2 | **3.8** | **0.1** |
| **Total inflation rate** | 2.1 | 0.8 | 3.8 | **6.7** | **3.3** |
| **Employment growth** | 2.0 | -4.8 | 4.2 | **2.3** | **0.3** |
| **Unemployment rate** | 5.2 | 8.8 | 6.1 | **4.5** | **5.5** |
| **Retail sales growth** | 1.3 | 0.4 | 14.4 | **9.5** | **5.4** |
| **Housing starts (thousands of units)** | 48.0 | 54.1 | 67.8 | **60.0** | **47.0** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Institut de la Statistique du Québec and Desjardins, Economic Studies

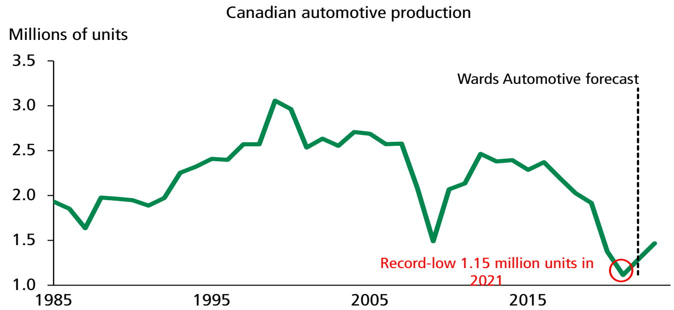
## ONTARIO

Canada could dip into a mild recession next year, and we expect Ontario to be one of the regional economies most impacted by the slowdown. That's because Ontario's economy is particularly vulnerable to the ongoing housing market correction brought about by rapidly rising interest rates and stretched affordability. The province has already seen one of the deepest contractions in home purchasing activity of any jurisdiction.

Housing weakness already looks to be filtering into the province's broader economy. Though its labour market started the year out strong, Ontario is the only province that has shed jobs in each of the last four months. Job losses were concentrated in construction and interest-sensitive trade, while hiring has slowed in the financial services industry. The risk of more spillover remains. Finance and insurance accounted for 11% of Ontario's output in 2021—nearly twice the share in any other province—and will likely feel the pinch from diminished housing transactions and sale prices.

On the plus side, Canada's automobile sector—headquartered in Southern Ontario—is poised for a rebound and should provide a partial offset. The industry was hit hard by COVID-19 lockdowns in 2020 and continued to be held back by global semiconductor shortages last year. Wards Automotive estimates that Canada assembled only about 1.15 million units last year—the lowest total since at least 1985—but projects solid gains of more than 10% in both 2022 and 2023, respectively (graph 9). Federal-provincial investments in electric vehicle production capacity have the potential to further buoy the industry long term. That said, extended supply chain constraints or a worse-than-expected US slowdown present downside risk. Over the longer run, we also see potential for Ontario to provide commodities critical to the energy transition. The province's reserves of industrial and precious metals, existing nickel production capacity in Sudbury, and recently announced Critical Minerals Strategy may play a role in this respect.

**GRAPH 9**
**An automotive recovery could help offset Ontario housing weakness**




Sources: Wards Automotive and Desjardins, Economic Studies

**TABLE 6**
**Ontario: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | 2.0 | -5.1 | 4.3 | **2.9** | **-0.1** |
| **Total inflation rate** | 1.9 | 0.6 | 3.5 | **6.8** | **3.1** |
| **Employment growth** | 2.8 | -4.7 | 4.9 | **4.4** | **0.6** |
| **Unemployment rate** | 5.6 | 9.5 | 8.0 | **5.8** | **6.8** |
| **Retail sales growth** | 2.5 | -3.5 | 9.3 | **14.8** | **2.2** |
| **Housing starts (thousands of units)** | 69.0 | 69.0 | 69.0 | **83.9** | **57.5** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Ontario Ministry of Finance and Desjardins, Economic Studies

## MANITOBA

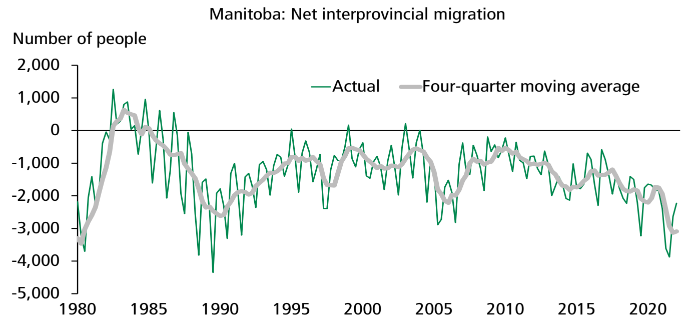
Manitoba is one of the few provinces where we expect economic growth to accelerate this year, largely because of a strong bounce in its key agricultural sector, which was hammered last year by drought. Statistics Canada's 2022 principal field crop projections suggest that the province's outputs of barley, canola, corn, soybeans and wheat will all advance by at least 20%. That should offer a boost, provided the slowdown in China—a key export market for crops—is not too severe.

Food processing remains a strength for the province. Related manufacturing shipments have surged since 2020, lifted by food price gains that should continue through 2023. Moreover, new processing capacity is set to come online this year as the world's largest pea processing plant in Portage la Prairie ramps up. And late 2021 saw the completion of a $182 million expansion of a Winnipeg meat processing plant.

Because Manitoba's economy is diversified, it's less likely to see a significant downturn as Canadian economic activity contracts. Pharmaceutical and aerospace exports made gains earlier this year as travel restrictions eased, though they're vulnerable to a US economic downturn. Mining should benefit from investments announced by Vale and Hudbay last year. And the province's relatively balanced and affordable housing market saw one of the smallest pandemic price run-ups of any Canadian jurisdiction, meaning it should skirt the worst of the national correction. Financial services, which are exposed to housing's spillovers effects, account for only a small share of provincial output relative to other jurisdictions in Canada.

This said, the province does face challenges in the quarters ahead. Interprovincial trade—normally a buffer against adverse conditions in global markets—stands to weaken as Canadian growth stalls. And net outmigration to other provinces recently matched a rate not seen since the early 1980s (graph 10). But international immigration should provide an offset, and we expect Manitoba to become a bigger draw amid stretched affordability elsewhere in Canada.

**GRAPH 10**
**Residents are fleeing the Keystone Province**




Sources: Statistics Canada and Desjardins, Economic Studies

**TABLE 7**
**Manitoba: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | 0.4 | -4.6 | 0.9 | **2.3** | **0.2** |
| **Total inflation rate** | 2.3 | 0.5 | 3.2 | **7.6** | **3.4** |
| **Employment growth** | 1.1 | -3.7 | 3.5 | **2.2** | **0.5** |
| **Unemployment rate** | 5.4 | 8.0 | 6.4 | **4.8** | **5.4** |
| **Retail sales growth** | 0.6 | -0.3 | 13.3 | **7.7** | **3.2** |
| **Housing starts (thousands of units)** | 6.9 | 7.3 | 8.0 | **7.5** | **5.0** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

## SASKATCHEWAN

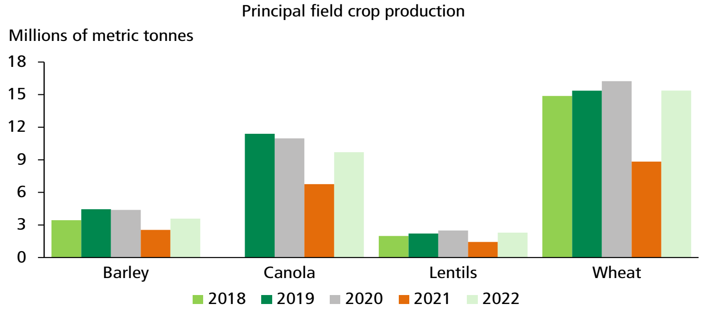
This year, we expect to see the strongest provincial economic gains in Saskatchewan, Canada's most diversified commodity producer. Crude production is up a solid 2% this year as of June on strong prices, and growth is accelerating. If maintained, that rate would represent the strongest gain since 2017. The province should also benefit from elevated prices and rising production of potash, uranium and a range of staple agricultural products. Per Statistics Canada's latest principal field crop estimates, outputs of barley, canola, lentils and wheat should rebound by more than 40% in 2022 following last year's severe drought (graph 11).

Gains across Saskatchewan's natural resources sectors have also enabled more stimulative fiscal policy. With a massive revenue windfall now filling government coffers, Saskatchewan will send $500 to every adult resident this year. That's the equivalent of 0.6% of nominal GDP according to the latest government forecasts. Although likely inflationary, this measure could juice consumer outlays.

Perhaps most importantly, the first stage of the $7.5 billion Jansen potash mine will add handsomely to capital investment over the next six years. Project timelines were recently accelerated in part because of fears that high gas prices and sanctions on key exporters would continue to disrupt global fertilizer supplies.

Less optimistically, Saskatchewan's population growth continues to slow. Net migration from other provinces has been negative since before the last pre-pandemic commodity price correction began in 2015. However, we expect Saskatchewan to become a more attractive destination due to its strong economic growth and the lack of affordable housing in other jurisdictions.

**GRAPH 11**
**Saskatchewan's key agricultural sector is poised for a rebound**




Sources: Statistics Canada and Desjardins, Economic Studies

**TABLE 8**
**Saskatchewan: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | -1.1 | -4.9 | -0.3 | **4.4** | **0.5** |
| **Total inflation rate** | 1.7 | -4.6 | 2.6 | **3.4** | **1.0** |
| **Employment growth** | 1.7 | -4.6 | 2.6 | **3.4** | **1.0** |
| **Unemployment rate** | 5.6 | 8.3 | 6.5 | **5.0** | **5.8** |
| **Retail sales growth** | 1.1 | 0.3 | 14.6 | **6.8** | **4.6** |
| **Housing starts (thousands of units)** | 2.4 | 3.1 | 4.2 | **4.4** | **3.0** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

## ALBERTA

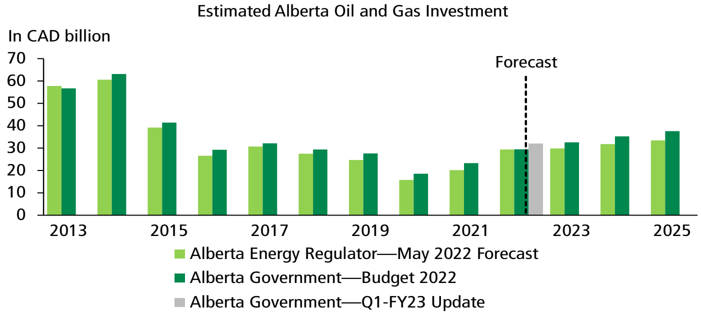
Alberta is the heart of Canada's oil and gas sector, and we expect it to see stronger-than-national growth this year and next. Crude production is hovering near record highs, and drilling activity is at its highest level since before the last pre-pandemic commodity price correction in 2015. Bolstered by strong prices and activity in this key industry, the government of Alberta recently revised its surplus projection to $13.2 billion for FY23—a record for any Canadian province—and announced it will accelerate debt repayment. We anticipate solid growth for oil production, investment and exports in Wild Rose Country through 2023.

However, a hefty Western Canada Select to West Texas Intermediate discount has eroded some of the profits that would have normally accrued to Alberta producers in an environment of sky-high prices. The differential recently past US$20 per barrel, near its early-pandemic high. This partly reflects greater heavy sour crude supply in the US Gulf Coast amid rising Mexican production and US Strategic Petroleum Reserve releases. It also relieves the tightness seen in much of 2021, when OPEC+ caps and sanctions on Venezuela disproportionately reduced heavy sour supply in the region.

Based on the latest economic projections, we don't anticipate the investment response to be as strong as in past price booms. This is due to greater competition from the US, the industry's lingering capital discipline following years of price volatility, and uncertainty surrounding the energy transition (graph 12).

Outside the oil patch, manufacturing is benefiting from a weak Canadian dollar as projects in the petrochemical and renewable energy sectors proceed. Alberta is home to one of the most affordable housing markets in the country, so it has also seen a surge in migration from other provinces. In the event of a housing-led recession, Alberta's economy and public finances should be relatively resilient.

**GRAPH 12**
**No return to 2014 investment boom despite surge in crude values**




Sources: Alberta Treasury Board and Finance, Alberta Energy Regulator, and Desjardins, Economic Studies

**TABLE 9**
**Alberta: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | -0.1 | -7.9 | 4.8 | **4.3** | **0.5** |
| **Total inflation rate** | 1.7 | 1.1 | 3.2 | **6.4** | **3.2** |
| **Employment growth** | 0.6 | -6.5 | 5.2 | **5.0** | **1.0** |
| **Unemployment rate** | 7.0 | 11.5 | 8.6 | **5.5** | **6.2** |
| **Retail sales growth** | -0.5 | -2.1 | 11.5 | **6.1** | **4.7** |
| **Housing starts (thousands of units)** | 27.3 | 24.0 | 31.9 | **35.5** | **25.5** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

## BRITISH COLUMBIA

British Columbia is at the intersection of many counteracting forces. Its economic gains should therefore be close to the national average over the next two years.

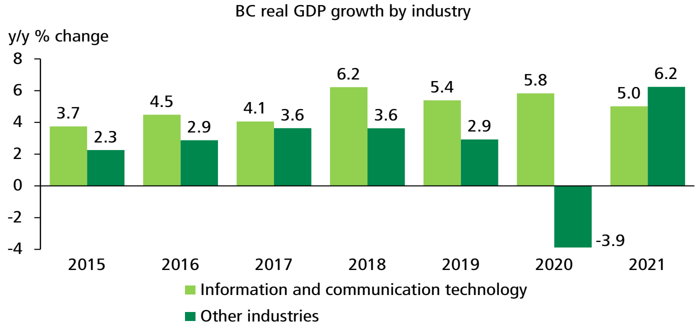
On the one hand, the province is particularly exposed to the housing sector. Its housing market is still highly unaffordable despite sales and prices contracting sharply early this year. What's more, BC households remain the most indebted in the country. Residential construction and real estate rental and leasing accounted for nearly 25% of real GDP in 2021—by far the most of any province. This suggests that BC will take a significant hit as the real estate downturn moves into its second phase.

Because BC has closer trade ties to China than any other province, its economic performance is intertwined with the Asian nation. In September, we cut our Chinese economic growth forecast again, noting softness in the country's industrial sector—the destination for many of BC's staple exports.

The tech sector's prospects are now less certain as well. Before and during the pandemic, its growth helped offset weakness in other industries (graph 13) and created many high-wage jobs, even relative to major US tech hubs. This in a jurisdiction where mean weekly earnings lag the national average. But many local firms have announced plans to cut staff, a trend we're seeing globally.

On a more positive note, strong prices for industrial and precious metals and natural gas should benefit BC's expansion over the next two years. This would be a welcome turn of events, as forest product values are weakening in response to a cooling housing market. What's more, the multi-billion-dollar LNG Canada natural gas export terminal project is proceeding in Kitimat and should support BC's economic expansion over the forecast horizon. The province should also benefit from reconstruction efforts following last year's severe floods. And even after allocating funds for future spending in its Q1 FY23 fiscal update, BC still has some of the strongest public finances of any province. This leaves room to boost investment to spur a recovery as needed.

**GRAPH 13**
**The engine of recent BC growth could stall amid tech sector layoffs**




Sources: Statistics Canada and Desjardins, Economic Studies

**TABLE 10**
**British Columbia: Major economic indicators**

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|
| **ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)** | | | | | |
| **Real GDP growth** | 3.1 | -3.4 | 5.7 | **3.0** | **0.0** |
| **Total inflation rate** | 2.3 | 0.8 | 2.8 | **6.7** | **3.2** |
| **Employment growth** | 2.9 | -6.5 | 6.6 | **3.0** | **0.7** |
| **Unemployment rate** | 4.7 | 9.0 | 6.5 | **5.1** | **6.0** |
| **Retail sales growth** | 0.6 | 1.2 | 12.6 | **3.6** | **3.0** |
| **Housing starts (thousands of units)** | 44.9 | 37.7 | 47.6 | **43.8** | **30.0** |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

**TABLE**

## Canada: Major economic indicators by province

| ANNUAL AVERAGE IN % (EXCEPT IF INDICATED) | 2019 | 2020 | 2021 | 2022f | 2023f |
|---|---|---|---|---|---|
| **Real GDP growth – Canada** | **1,9** | **-5,2** | **4,5** | **3,2** | **0,0** |
| Atlantic | 2,7 | -3,5 | 3,8 | 1,6 | 0,1 |
| Quebec | 2,8 | -5,5 | 5,6 | 3,8 | 0,1 |
| Ontario | 2,0 | -5,1 | 4,3 | 2,9 | -0,1 |
| Manitoba | 0,4 | -4,6 | 0,9 | 2,3 | 0,2 |
| Saskatchewan | -1,1 | -4,9 | -0,3 | 4,4 | 0,5 |
| Alberta | -0,1 | -7,9 | 4,8 | 4,3 | 0,5 |
| British Columbia | 3,1 | -3,4 | 5,7 | 3,0 | 0,0 |
| **Total inflation rate – Canada** | **1,9** | **0,7** | **3,4** | **6,7** | **3,2** |
| Atlantic | 1,4 | 0,2 | 3,9 | 7,3 | 3,2 |
| Quebec | 2,1 | 0,8 | 3,8 | 6,7 | 3,3 |
| Ontario | 1,9 | 0,6 | 3,5 | 6,8 | 3,1 |
| Manitoba | 2,3 | 0,5 | 3,2 | 7,6 | 3,4 |
| Saskatchewan | 1,7 | 0,6 | 2,6 | 6,6 | 3,3 |
| Alberta | 1,7 | 1,1 | 3,2 | 6,4 | 3,2 |
| British Columbia | 2,3 | 0,8 | 2,8 | 6,7 | 3,2 |
| **Employment growth – Canada** | **2,2** | **-5,1** | **4,8** | **3,6** | **0,6** |
| Atlantic | 1,7 | -4,1 | 3,9 | 3,0 | 0,6 |
| Quebec | 2,0 | -4,8 | 4,1 | 2,3 | 0,3 |
| Ontario | 2,8 | -4,7 | 4,9 | 4,4 | 0,6 |
| Manitoba | 1,1 | -3,7 | 3,5 | 2,2 | 0,5 |
| Saskatchewan | 1,7 | -4,6 | 2,6 | 3,4 | 1,0 |
| Alberta | 0,6 | -6,5 | 5,2 | 5,0 | 1,0 |
| British Columbia | 2,9 | -6,5 | 6,6 | 3,0 | 0,7 |
| **Unemployment rate – Canada** | **5,7** | **9,6** | **7,4** | **5,4** | **6,4** |
| Atlantic | 8,7 | 10,8 | 9,6 | 8,0 | 8,5 |
| Quebec | 5,1 | 8,9 | 6,1 | 4,4 | 5,5 |
| Ontario | 5,6 | 9,5 | 8,0 | 5,8 | 6,8 |
| Manitoba | 5,4 | 8,0 | 6,4 | 4,8 | 5,4 |
| Saskatchewan | 5,6 | 8,3 | 6,5 | 5,0 | 5,8 |
| Alberta | 7,0 | 11,5 | 8,6 | 5,5 | 6,2 |
| British Columbia | 4,7 | 9,0 | 6,5 | 5,1 | 6,0 |
| **Retail sales growth – Canada** | **1,4** | **-1,3** | **11,8** | **9,5** | **3,1** |
| Atlantic | 1,9 | 0,0 | 14,1 | 7,0 | 2,3 |
| Quebec | 1,3 | 0,4 | 14,4 | 9,5 | 5,4 |
| Ontario | 2,5 | -3,5 | 9,3 | 14,8 | 2,2 |
| Manitoba | 0,6 | -0,3 | 13,3 | 7,7 | 3,2 |
| Saskatchewan | 1,1 | 0,3 | 14,6 | 6,8 | 4,6 |
| Alberta | -0,5 | -2,1 | 11,5 | 6,1 | 4,7 |
| British Columbia | 0,6 | 1,2 | 12,6 | 3,6 | 3,0 |
| **Housing starts – Canada** (thousands of units) | **208,7** | **216,7** | **271,2** | **248,3** | **177,0** |
| Atlantic | 10,1 | 10,3 | 12,1 | 13,1 | 9,1 |
| Quebec | 48,0 | 53,4 | 67,8 | 60,0 | 47,0 |
| Ontario | 69,0 | 81,3 | 99,6 | 83,9 | 57,5 |
| Manitoba | 6,9 | 7,3 | 8,0 | 7,5 | 5,0 |
| Saskatchewan | 2,4 | 3,1 | 4,2 | 4,4 | 3,0 |
| Alberta | 27,3 | 24,0 | 31,9 | 35,5 | 25,5 |
| British Columbia | 44,9 | 37,7 | 47,6 | 43,8 | 30,0 |

f: forecasts
Sources: Statistics Canada, Institut de la statistique du Québec, Ontario's Ministry of Finance, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies