

ECONOMIC VIEWPOINT

Desjardins Provincial Outlook:

Hiring Surge, Budget Supports Delay Provincial Slowdown Until Later this Year

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- ▶ Rising prices and sharply higher interest rates should continue to slow Canada’s provincial economies this year, especially in construction activity and interest-sensitive industries.
- ▶ Housing exposure, population growth and major project timelines continue to account for differences in our provincial forecasts.
- ▶ We still expect housing-intensive Ontario and BC to increasingly be impacted by sharply higher interest rates, while commodity-producing regions still have the best prospects. However, provincial differences are emerging in construction activity and the timing of the housing market correction.
- ▶ But early 2023 surges in employment and population, plus stimulative infrastructure spending and affordability relief measures laid out in this year’s budgets, will delay the downturn until later this year.

INTRODUCTION

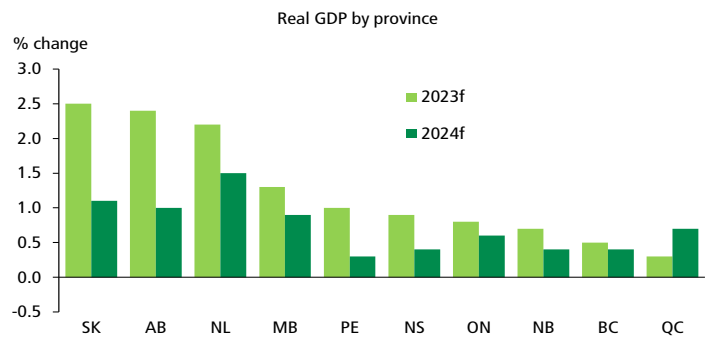
(Mostly) Slower Growth as Rate Hikes Bite

Inflation continues to dominate the economic outlook for Canada’s provinces. We expect all regions to increasingly feel the dampening impacts of easing but still-elevated price pressures and still-high interest rates as 2023 progresses, particularly in construction activity and interest-sensitive industries.

Housing exposure, population growth and major project timelines continue to account for differences in our forecasts. On one end of the spectrum are housing-exposed provinces like Ontario and British Columbia (BC), which we expect to see the biggest economic slowdowns this year. At the other end of the spectrum, commodity producers Alberta, Saskatchewan, and Newfoundland and Labrador still have the best prospects (graph 1), as they are less vulnerable to real estate weakness and should benefit from investment activity. Record rates of population growth should continue to help economic growth in Atlantic Canada.

GRAPH 1

Oil-Producing Provinces Will Fare the Best This Year



Sources: Statistics Canada and Desjardins Economic Studies

Budget Stimulus, Early-Year Surges in Employment and Population Delay Downturn

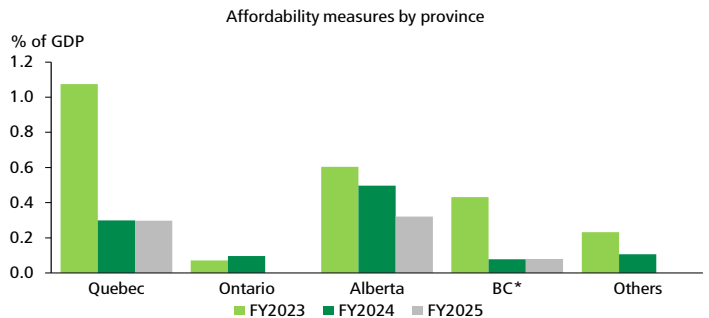
But we’ve pushed the recession out later in 2023 and now expect stronger rates of growth in many provinces than in our prior forecast update.

Since our last quarterly report, government support has increased. Although [we noted](#) that most provinces plan to scale back affordability relief in FY2024, the latest fiscal blueprints did introduce new measures that could very well stimulate consumer spending (and possibly inflation). Though Quebec will offer less stimulus this year than it did in FY2023, it continues to be among the most generous with respect to supports for households (graph 2). Infrastructure spending plans were also upped, with some provinces now anticipating big jumps this year (graph 3).

With some exceptions, provincial employment has also started the year stronger than we anticipated. While we think this trend will reverse as the full effects of interest rate increases make their way through the economy, it nonetheless improves the Q1 growth handoff in many jurisdictions.

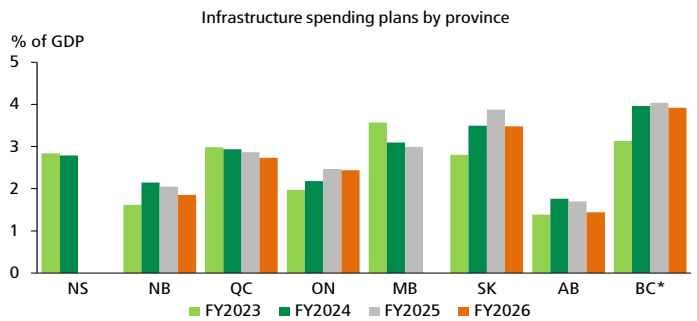
The sheer strength of population growth—across jurisdictions—continues to surprise as well. So far, the Prairie and Atlantic provinces have experienced the strongest gains, while Quebec and BC have lagged. That adds to the early-year growth spurt, and newcomers and net non-permanent resident admissions may help fill high numbers of job vacancies as well.

GRAPH 2
Affordability Assistance Remains in Place This Year



* Does not include public sector wage increases under the Shared Recovery Mandate.
Sources: Provincial budget documents and Desjardins Economic Studies

GRAPH 3
There's More Infrastructure Spending to Come



* Includes taxpayer- and self-supported capital spending.
Sources: Provincial budget documents and Desjardins Economic Studies

NEWFOUNDLAND AND LABRADOR

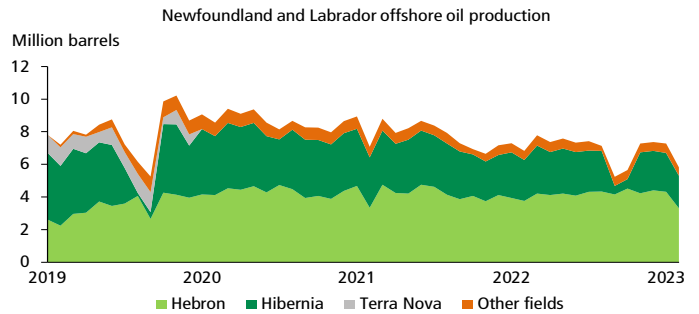
We still expect Newfoundland and Labrador (NL) to buck the national trend of slowing growth, primarily because of capital investment gains. Major projects advancing over 2023–24 include the West White Rose offshore oilfield extension, Voisey’s Bay underground mine and conversion of the Come By Chance refinery into a biofuels facility. Last year, NL outpaced all other provinces in growth in constant-price, non-residential outlays. For 2023, it ranks third in capital investment intentions. Budget 2023 upped infrastructure spending plans as well.

The province now also anticipates much faster population gains than before COVID-19, presumably due to historically high immigrant intake and interprovincial in-migration. Whereas Budget 2019 projected stable annual population declines of 0.3% over time, [Budget 2023](#) assumed headcount advances through at least 2027. That is good news for Canada’s fastest-aging province.

Strong investment and population gains look to be supporting employment in NL. Hiring was up 4% y/y year-to-date in March, the third best of any province, with growth concentrated in natural resources and construction.

Less optimistic are recent downgrades to the oil production outlook. The government expects the drag from maintenance work at the White Rose and Hebron platforms to dominate gains from Terra Nova’s restart this year. Output at those first two fields is already weakening (graph 4).

GRAPH 4
Production Has Started Off Slow at Multiple Fields



Sources: Canada-Newfoundland and Labrador Offshore Petroleum Board and Desjardins Economic Studies

PRINCE EDWARD ISLAND

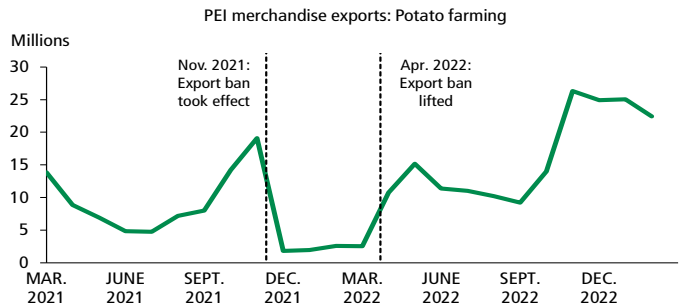
Prince Edward Island (PEI) faces uncertainty on the international trade front. Hurricane Fiona-related damage has seafood exports down significantly to begin 2023. But potato shipments have surged this year, following the removal of an American export ban enacted after the discovery of wart fungus in 2021 (graph 5). Livestock, chemical and pharmaceutical exports to China also began the year softly, likely hindered by that country’s late 2022 shutdown. Broadly speaking, a weakening US economy does not bode well for trade.

Population growth prospects still look solid. Newcomer admissions make up a large share of the Island’s headcount, and labour market integration is improving. Accordingly, the province remains poised to benefit from national immigration target increases. And there are potentially symbiotic growth impacts from recently increased infrastructure plans. Interprovincial migration has eased from its recent peak but remains strong. Over time, the rapidly increasing population should power housing activity, which is off to a weak start this year. Residential sales and investment started 2023 more softly on the Island than in most other provinces. That said, the average sale price remains closer to its pandemic peak in PEI than in other jurisdictions in Canada.

The signature PEI election campaign promise was an increase to the basic personal tax exemption. Like similar measures in other provinces, this should help lower-income households address affordability pressures. However, to the extent that new money is spent by higher-income households, it also risks stimulating consumer demand higher up the income spectrum and potentially stoking inflation.

GRAPH 5

Staple Potato Exports Have Surged since the US Export Ban Was Lifted



Sources: Statistics Canada and Desjardins Economic Studies

NOVA SCOTIA

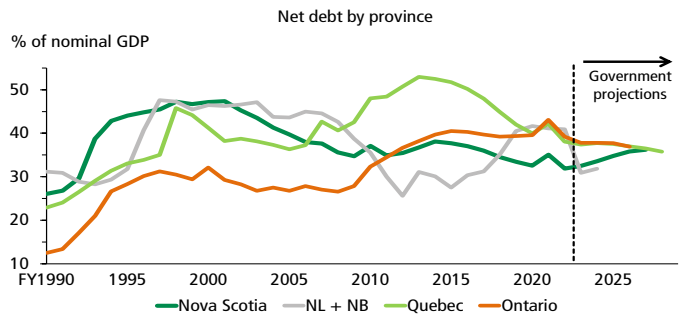
Nova Scotia (NS) started off 2023 with strong employment and population gains. High-wage services plus education and public administration contributed to hiring. With source population advancing at a near-record clip, [Budget 2023](#) forecasts near-record headcount increases through 2024. This presumably reflects record immigration and still-historically-high interprovincial migration and net non-permanent resident admissions.

To support a growing population, NS boosted infrastructure plans. The FY2024 Capital Plan forecast record spending, contributing to a rising debt burden (graph 6). We think that's justified given the magnitude of NS's recent headcount surge. But delivering on fiscal targets may prove challenging amid economic uncertainty and as labour and input shortages plague major project timelines.

Homebuilding continues to weaken despite resilience in NS home prices. That may have translated into workforce reductions in construction, which accounts for an outsized share of GDP in NS. And non-residential investment intentions are modest for 2023. Still, household debt levels are lower in NS than in other Canadian jurisdictions, providing a measure of protection against higher interest rates.

With seafood and fishing exports up to begin 2023, trade seems to have been less impacted by Hurricane Fiona in NS than elsewhere in Atlantic Canada. Going forward, China's reopening should help NS, though we expect slowing growth among other trading partners this year.

GRAPH 6
Nova Scotia's Debt Burden Is Rising



Sources: Provincial budget documents and Desjardins Economic Studies

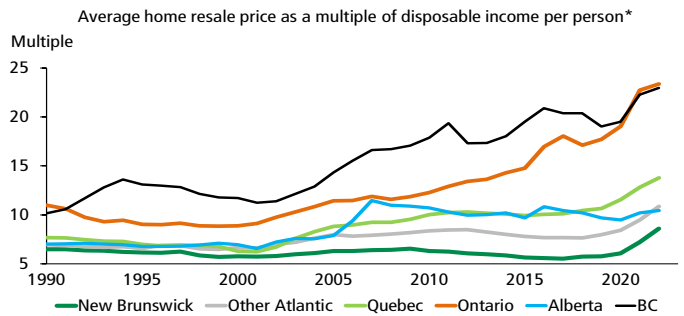
NEW BRUNSWICK

In a housing-led economic downturn, New Brunswick (NB) still looks better-positioned than most other provinces. Real estate accounts for a small share of output. Affordability metrics are among the best in Canada (graph 7). Households are less indebted than they are elsewhere, suggesting more modest damage from sharply higher borrowing costs. Source population advanced at a record rate in March, and employment gains are the best in Canada at the start of 2023. The province expects near-record headcount gains in the coming years, as do we. And the budget surpluses and low and declining net government debt burden forecast in [Budget 2023](#) leave room for economic supports if necessary.

Prospects are less sanguine for key commodities. Lumber prices continue to trend lower with US homebuilding, which we expect will worsen over 2023. Lumber export duty rates remain uncertain as Canada and the US negotiate. Slowing US economic growth and more modest prices for refined petroleum and pulp and paper should eat into producer profits as the year progresses.

With few major projects waiting in the wings, capital investment intentions for 2023 are weak in NB relative to other provinces. However, planned rises in infrastructure spending may help fill the void. There is also upside long-run potential via development of natural gas and small modular reactor industries.

GRAPH 7
Housing Is More Affordable in New Brunswick than in Most Other Provinces



* 2022 household income based on quarterly Statistics Canada estimates.
 Sources: Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

QUEBEC

Quebec’s economy has been up and down since mid-2022. But last year ended on a high note, with consumer spending gains fuelled by \$400–\$600 cheques from the Quebec government in December and strong wage and job growth.

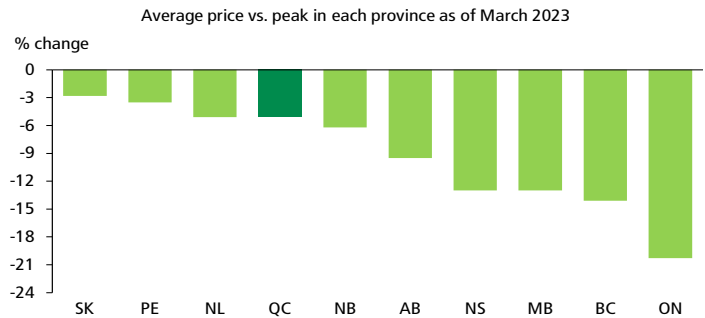
It’ll be a different story in 2023. Consumers will really feel the pinch of high interest rates, especially as the government has announced significantly less financial support this year. Consumer spending will slow and the housing market will continue to correct. Housing starts were down about 15% last year and are expected fall around 20% in 2023, taking a toll on the economy. And while home prices haven’t declined as much in Quebec as in most other provinces so far (graph 8), they aren’t expected to rebound until next year.

Global economic headwinds will also weaken exports and investment in 2023. Non-residential investment has been on a downward trend since the middle of last year.

All in all, we could see several quarters of real GDP contraction and a slight softening of the labour market before the economy starts to recover in 2024.

However, policy measures announced in Quebec’s [2023 Budget](#) should offer some support for economic growth in the short run. New initiatives include tax cuts for the lowest two income brackets, which should help disposable income (with potential upside risk to inflation). Moreover, infrastructure spending plans for this year are some of the largest as a share of GDP of any province, though the rate of growth penciled in for FY2024 is relatively modest.

GRAPH 8
Home Prices Haven't Fallen as Much in Quebec



Sources: Canadian Real Estate Association and Desjardins Economic Studies

ONTARIO

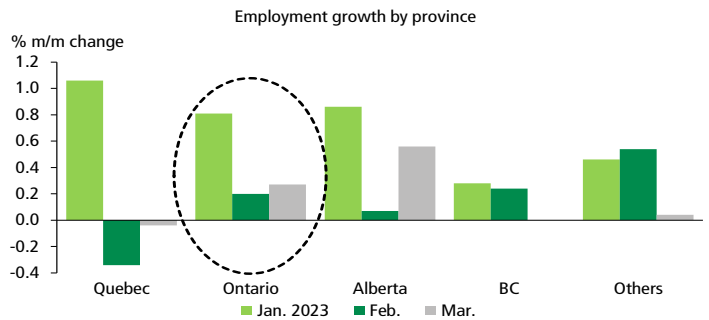
We still expect the late 2023 recession to impact Ontario disproportionately. Sharply higher interest rates, stretched affordability, high household debt levels and moribund housing market activity have significantly impacted the economy. Of note: household consumption barely budged in Q4 2022, completing a two-quarter contraction not seen since the Global Financial Crisis (other than in 2020). More challenging conditions in the financial services sector could also contribute to the slowdown ahead.

Yet Ontario’s housing market may be ready for a rebound. Home sales have improved amid falling listings, which could lift prices in the months ahead as well as erode affordability, which had been improving of late.

Ontario’s labour market also got off to a good start (graph 9). Full-time employment is up a strong 3.5% year-over-year for the first three months of 2023, and the unemployment rate remains near record lows. Although unemployment should rise in H2 2023, the job market’s strong starting point suggests the coming recession will be mild by historical standards.

Recovering automobile production remains a positive trend. Wards Automotive forecasts that Canadian car output—virtually all of which occurs in Ontario—will climb a hefty 12% in 2023. For trade, that rebound should help offset the dampening effects of the expected North American economic slowdown.

GRAPH 9
Ontario Job Creation Has Been Strong and Steady despite Vulnerability to Higher Interest Rates



Sources: Statistics Canada and Desjardins Economic Studies

MANITOBA

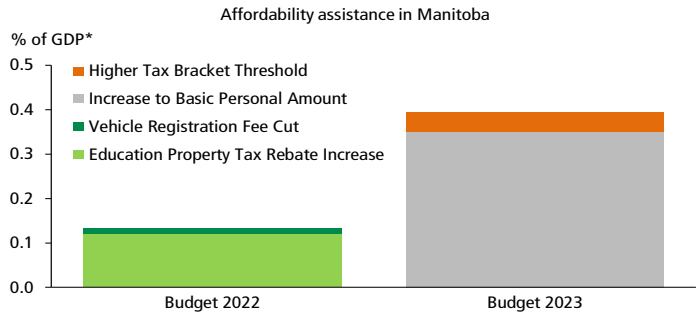
The last three months haven't changed our view that Manitoba will outperform most other provinces this year. The housing market there is more affordable than in most other Canadian jurisdictions and hasn't experienced as sharp a correction following rate hikes. Financial services and construction still make up a small share of provincial GDP.

The latest investment intentions survey reinforces our prior expectations of solid capital outlays this year. Non-oil and gas mining expenditures are forecast to account for over 20% of the increase in the province this year and reach heights not seen since 2013. This comes with investments planned at a number of key mines. Glassmaking and food processing projects going ahead this year mirror a nearly 20% projected increase in manufacturing.

Exports continue to perform well. Strong prices and steady production of staple soybeans, canola and wheat have related shipments up significantly in 2023. Electricity output also continues to recover. However, weakening US and Canadian provincial economies should hurt international and interprovincial exports going forward.

At an estimated 0.4% of FY2024 provincial GDP (graph 10), [Budget 2023's](#) Basic Personal Amount increase is among the most generous affordability measures announced by any province. This should help consumption—particularly for lower-income households—but also risks inflaming inflation if higher-income consumers spend the additional cash.

GRAPH 10
The Increase to the Basic Personal Amount Is the Highlight of Budget 2023 Affordability Measures



* According to provincial government economic forecasts.
 Sources: Manitoba Finance and Desjardins Economic Studies

SASKATCHEWAN

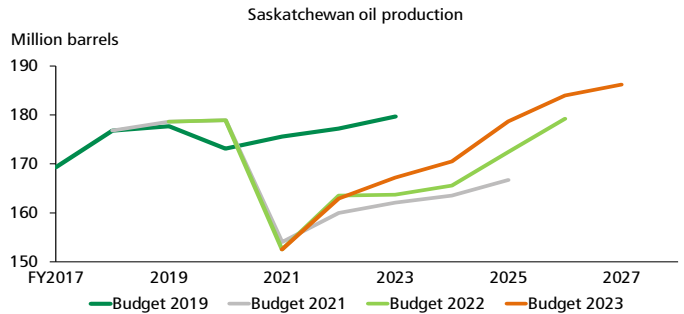
Investment intentions data suggests hefty 2023 capital outlays in Saskatchewan, where we still expect growth above the national average this year. With the first stage of the \$7.5B Jansen potash mine well underway, Saskatchewan is on track to account for three-quarters of gains in Canadian non-oil mining outlays in 2023. Work on canola processing facilities is also ongoing.

We still expect rising commodity production to support exports as prices moderate. [Budget 2023](#) again boosted oil output forecasts (graph 11) and foresaw higher potash output this year. Uranium output is up following the restart of the McArthur River and Cigar Lake mines, where production is forecast to nearly double in 2023. Strong agricultural prices have propelled Saskatchewan to the top of provincial merchandise export rankings, with particularly robust shipments to China.

Strong public finances leave room for economic support if needed. Saskatchewan expects persistent budget surpluses and the second-lowest debt burden of any province.

Hiring began 2023 more slowly than in most other provinces, but commodity and major project activity should support employment this year. Saskatchewan is also less exposed to real estate than most other provinces and thus faces less risk of a slowdown as housing market spillovers are increasingly felt. Solid economic prospects and strong affordability should increasingly attract interprovincial migrants going forward.

GRAPH 11
Government Oil Production Forecasts Have Been Lifted Again



Sources: Saskatchewan Ministry of Finance and Desjardins Economic Studies

ALBERTA

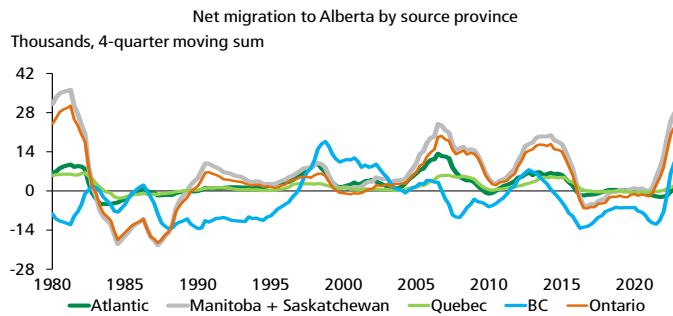
Three months into 2023, Alberta’s economy appears to be firing on all cylinders.

Based on the 2023 survey of investment intentions and the latest government forecasts, oil and gas investment should moderate this year but continue to advance at a solid clip. OPEC+’s recently announced output cut looks likely to keep crude values strong enough to support industry profitability, though downside risk remains. Provincial crude output should also continue to rise—albeit at a diminished pace. Yet completion of the Trans Mountain pipeline expansion later this year may support further increases down the road (and reduce the gap between Alberta and US oil prices).

Prospects for other industries remain optimistic. Petrochemicals and renewable energy projects are poised to boost capital investment. And while household debt is higher in Alberta than in most of the rest of the country, the housing market is still much more affordable than in other parts of the country. That continues to spur net interprovincial migration to Alberta—particularly from higher-priced Ontario (graph 12)—amid surging international immigration and net non-permanent resident admissions.

[Budget 2023](#) maintained affordability measures at about 0.5% of GDP in FY2024. The largest single FY2024 measure—indexation of personal income tax brackets—could goose consumption but also spur inflation if higher-income consumers simply spend their tax savings.

GRAPH 12
Alberta Is Seeing 1980s-Level In-Migration from Ontario



Sources: Statistics Canada and Desjardins Economic Studies

BRITISH COLUMBIA

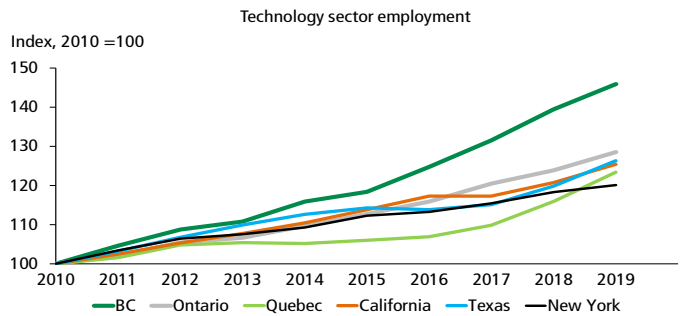
Incoming data still suggests that BC is feeling the pain of higher interest rates more than other Canadian provinces are. To date in 2023, BC has posted the weakest total jobs and retail sales gains of any province. In growth terms, it ranks last in home sales and second last in home resale prices, hours worked and car purchases. Construction investment and hiring have held up so far, and home prices have shown signs of stabilizing of late. But weak pricing and higher rates should increasingly restrain homebuilding.

The technology sector also presents risks. In the decade before the pandemic, BC outpaced all other provinces and several US hubs in high-tech employment (graph 13). But amid financial market volatility, staff reductions have been announced in the sector in Canada and the US.

With metal and forest product prices down versus last year, export values started 2023 off lower in BC than in the rest of Canada. A weakening US housing market does not bode well for BC lumber, though China’s reopening could provide a tailwind to the industry.

But there’s some reason for optimism. Work on the multibillion-dollar LNG Canada natural gas export terminal is continuing, with oil and gas investment intentions still strong. And the infrastructure spending plans in [Budget 2023](#) are some of the most ambitious of any province.

GRAPH 13
BC Has Been Outpacing Major US Tech Hubs in Employment



Sources: BC Stats and Desjardins Economic Studies

SUMMARY FORECAST TABLES

TABLE

Canada: Major economic indicators by province

	2019	2020	2021	2022f	2023f	2024f
ANNUAL AVERAGE IN % (EXCEPT OF INDICATED)						
Real GDP growth – Canada	1.9	-5.1	5.0	3.4	1.1	0.7
Newfoundland and Labrador	4.0	-4.6	0.6	0.6	2.2	1.5
Prince Edward Island	4.5	-1.6	7.9	2.7	1.0	0.3
Nova Scotia	3.4	-3.5	6.2	2.6	0.9	0.4
New Brunswick	1.3	-2.7	5.9	2.3	0.7	0.4
Quebec	2.8	-5.0	6.0	2.8	0.3	0.7
Ontario	2.1	-4.7	5.2	3.7	0.8	0.6
Manitoba	1.2	-4.4	1.8	2.3	1.3	0.9
Saskatchewan	-0.4	-4.8	-0.9	4.7	2.5	1.1
Alberta	0.1	-8.0	4.8	4.6	2.4	1.0
British Columbia	2.6	-3.0	6.1	3.1	0.5	0.4
Nominal GDP growth – Canada	3.5	-4.5	13.6	11.0	0.2	2.2
Newfoundland and Labrador	3.6	-10.0	17.7	14.6	-3.4	3.3
Prince Edward Island	6.5	1.4	14.3	8.2	1.6	1.5
Nova Scotia	4.4	0.0	10.9	6.7	1.4	1.6
New Brunswick	2.4	-1.6	13.8	9.0	0.7	1.6
Quebec	4.6	-1.9	11.8	10.0	2.1	2.1
Ontario	3.9	-2.9	10.3	9.2	1.0	1.9
Manitoba	1.7	-1.3	8.4	8.2	0.8	2.0
Saskatchewan	1.0	-7.6	13.1	15.2	-1.0	3.1
Alberta	1.7	-15.7	26.2	18.1	-2.9	3.4
British Columbia	3.9	-0.7	14.2	10.2	-0.9	1.4
Total inflation rate – Canada	1.9	0.7	3.4	6.8	3.1	2.0
Newfoundland and Labrador	1.0	0.2	3.7	6.4	3.1	2.0
Prince Edward Island	1.2	0.0	5.1	8.9	4.0	2.5
Nova Scotia	1.6	0.3	4.1	7.5	3.7	2.4
New Brunswick	1.7	0.2	3.8	7.3	3.2	2.1
Quebec	2.1	0.8	3.8	6.7	3.4	1.9
Ontario	1.9	0.6	3.5	6.8	3.3	2.1
Manitoba	2.3	0.5	3.2	7.9	3.7	2.3
Saskatchewan	1.7	0.6	2.6	6.6	3.7	2.3
Alberta	1.7	1.1	3.2	6.5	3.5	2.2
British Columbia	2.3	0.8	2.8	6.9	3.5	2.1
Employment growth – Canada	2.1	-5.6	5.0	4.0	1.6	0.8
Newfoundland and Labrador	1.6	-6.4	3.6	4.3	2.0	0.4
Prince Edward Island	3.3	-3.5	4.1	5.3	1.9	0.7
Nova Scotia	2.8	-4.6	5.6	3.6	3.0	1.2
New Brunswick	0.5	-3.0	3.2	2.7	2.6	1.0
Quebec	1.7	-5.4	4.1	3.0	1.8	-0.6
Ontario	2.5	-5.4	5.2	4.6	1.5	1.1
Manitoba	1.2	-4.3	3.7	3.2	1.4	1.0
Saskatchewan	1.7	-5.0	2.6	3.5	1.5	1.3
Alberta	1.1	-7.0	5.5	5.2	2.6	1.4
British Columbia	2.6	-6.2	6.2	3.1	0.6	1.2
Unemployment rate – Canada	5.7	9.7	7.5	5.3	5.9	6.6
Newfoundland and Labrador	12.2	14.5	13.1	11.2	11.3	12.0
Prince Edward Island	8.7	10.7	9.9	7.5	8.4	9.5
Nova Scotia	7.4	9.9	8.6	6.6	5.8	5.9
New Brunswick	8.2	10.3	9.1	7.2	6.5	6.7
Quebec	5.1	8.9	6.1	4.3	4.5	6.0
Ontario	5.6	9.8	8.1	5.6	6.2	7.0
Manitoba	5.3	8.2	6.4	4.5	5.2	5.7
Saskatchewan	5.5	8.3	6.5	4.7	4.8	5.4
Alberta	6.9	11.4	8.5	5.8	6.8	7.3
British Columbia	4.8	9.1	6.5	4.6	5.9	6.2

f: forecasts

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