ECONOMIC VIEWPOINT

Desjardins Provincial Outlook:

Resurgent Housing Market Reshuffles Provincial Growth Rankings … for Now

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Summary

- We've revised growth rates materially higher for Ontario and BC following torrid early-2023 housing market rebounds. However, we still think Canada's oil-producing regions face the best economic prospects in 2023–24.
- Along with acute labour shortages, skyrocketing population growth has supported the economic expansion in all provinces so far this year.
- Yet while these developments help the 2023 growth arithmetic, they don't rule out a downturn altogether—they just delay it until 2024. Falling home sales in Toronto and Vancouver immediately after the Bank of Canada resumed interest rate hikes suggest momentum is already slowing.
- Monetary policy works with a lag, and all regions should increasingly feel the dampening impacts of sharply higher interest rates in the coming months. As we approach 2024, more housing-oriented provincial economies should see the more significant slowdowns we've long been expecting.

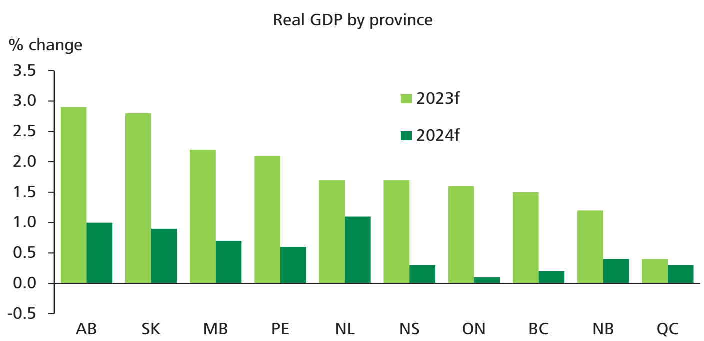
OVERVIEW

The Housing Market Rebound Has Impacted Provincial Growth Rates

Canada's oil-producing regions should still fare the best in the coming economic slowdown (graph 1), but we've delayed the timing of that slowdown and tweaked the growth rankings of the other provinces.

The relative strength of provincial housing market rebounds underpins changes in our views. Most provinces have seen home sales activity bounce back following an initial pause in the rate hiking cycle that began in January. But the robustness of gains in Ontario and BC (graph 2 on page 2)—where households are most stretched by affordability pressures and household debt levels—has been striking. Better early-2023 momentum means particularly strong upward revisions to growth rates in housing-oriented Ontario and BC. By contrast, a much

GRAPH 1
Oil-Producing Provinces Will Fare the Best This Year



Sources: Statistics Canada and Desjardins Economic Studies

softer bounce-back in Quebec—following a less pronounced initial contraction—is part of why we think that province will experience more modest growth this year.

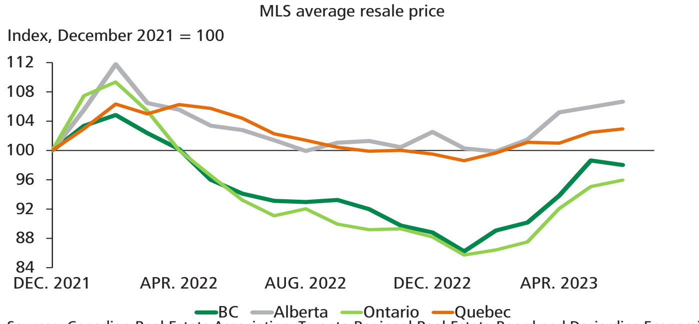
In our view, while these developments help the 2023 growth arithmetic, they delay the downturn rather than preclude it. Monetary policy works with a lag, and all regions should increasingly feel the dampening impacts of sharply higher interest rates in the coming months. We've already seen some signs of this. Retail sales growth in Ontario and BC have so far lagged gains in other jurisdictions, and the largest housing markets in both provinces retreated in June after the central bank resumed monetary tightening. As we approach 2024, housing-exposed provinces should see the more significant slowdowns we've long been expecting. Meanwhile Alberta and Saskatchewan remain less vulnerable to these effects and should generally benefit from solid commodity prices and production gains.

Population Growth Continues to Explode

Along with acute labour shortages, skyrocketing population growth has been the proverbial rising tide lifting all provincial growth boats so far in 2023. Net international immigration is dwarfing the drag from natural growth and interprovincial flows in most provinces. That trend should continue so long as federal policy remains focused on attracting and retaining newcomers. Persistently strong population growth will play a role in stimulating demand for goods and services.

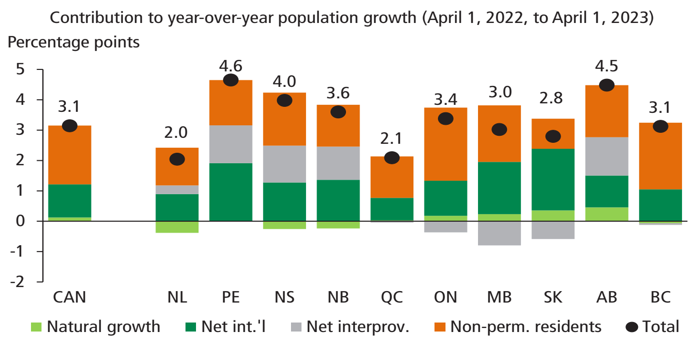
But the sources of recent population advances also matter for provincial growth rankings. Ontario and BC are welcoming record numbers of non-permanent residents, but that could change if temporary foreign worker admissions fall in response to a slowing economy. By contrast, headcount gains look more durable in Alberta and the Maritimes. Recent population growth in these regions has come from non-permanent residents, immigration and interprovincial migration (graph 3), partly as a result of their relatively affordable home prices.

GRAPH 2
The Strong Early-2023 Housing Rebound Will Boost Growth Rates in BC and Ontario This Year, Though Momentum Is Slowing



Sources: Canadian Real Estate Association, Toronto Regional Real Estate Board and Desjardins Economic Studies

GRAPH 3
Fortune Favours Provinces with More Balanced Population Gains



Sources: Statistics Canada and Desjardins Economic Studies

NEWFOUNDLAND AND LABRADOR

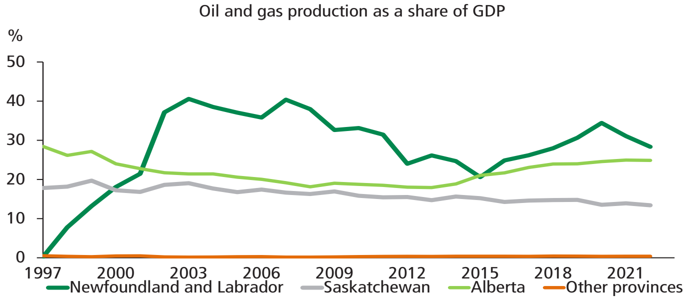
We now expect Newfoundland and Labrador (NL) to post average economic growth in 2023, with a pickup next year.

Forecast changes reflect a weaker-than-anticipated path for oil production, which makes up a larger share of GDP in NL than anywhere else in Canada (graph 4). The Terra Nova offshore field—closed since 2020—is no longer expected to reopen this year. Moreover, maintenance work has continued to weigh down output from the White Rose and Hebron platforms.

Investment prospects are more optimistic. Major projects slated for 2023–24 include the West White Rose offshore oilfield extension and the Voisey's Bay underground mine. NL beat out all other provinces in non-residential investment growth last year and in Q1 2023.

With skilled newcomer intake expected to remain a national priority, NL's population growth should remain well above historical averages. The province posted its fastest headcount growth since the 1970s in Q1, with strong support from international immigrants. Despite these tailwinds, home sales activity trended lower to begin 2023, though NL hasn't been as hard hit by last year's rate hikes as larger, less affordable provinces.

GRAPH 4
Newfoundland and Labrador's Economic Fortunes Are Tied to the Oil and Gas Sector



Sources: Statistics Canada and Desjardins Economic Studies

PRINCE EDWARD ISLAND

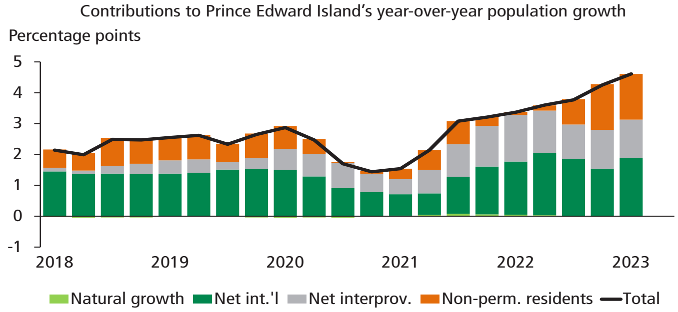
Prince Edward Island (PEI) should be a growth leader in 2023.

Its record, nation-leading headcount gains so far this year have come from a variety of sources (graph 5), making it well-positioned to weather a prospective slowdown in non-permanent resident arrivals. Against that backdrop, PEI has seen rallying home sales and some of the strongest hiring in Canada. It's also experienced very good retail sales growth, though homebuilding remains sluggish.

The international trade environment has improved. Following Hurricane Fiona-related damage early in 2023, seafood exports have surged for two consecutive months. China's reopening from late-2022 lockdowns is still supporting export values. And staple potato shipments have exploded since the American export ban was lifted. But going forward, a slowdown in the US—PEI's main trading partner—could weigh on export demand.

PEI's 2023 operating budget looks generally growth stimulative. An increase in the basic personal tax exemption is positive for lower-income Islanders. But like similar measures implemented in other provinces, it risks stoking consumer demand (and inflation) higher up the income spectrum. New outlays on healthcare and affordable housing prevent a faster pace of fiscal consolidation, but they're necessary to meet the needs of such a rapidly growing population.

GRAPH 5
There Are Multiple Contributors to PEI's Record Population Growth



Sources: Statistics Canada and Desjardins Economic Studies

NOVA SCOTIA

A good start to 2023 should help Nova Scotia's (NS) growth, but we see downside risk ahead.

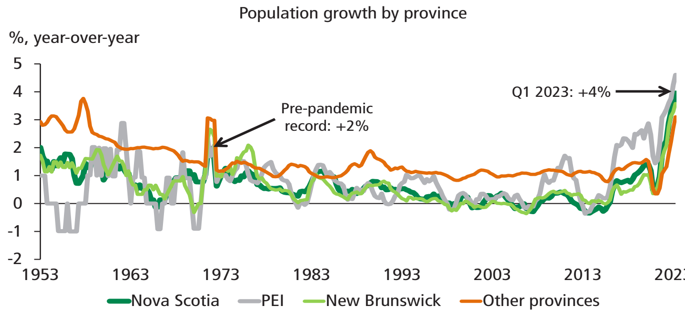
The economic contributions from population growth are arguably more significant in Nova Scotia than anywhere else. Strikingly, it was the only province where the Q1 2023 y/y increase was double the pre-pandemic record (graph 6).

It's not clear if that will continue. NS had some of the biggest gains of any province in the volatile non-permanent resident category in Q1 2023. Natural growth remains a drag, and net interprovincial in-migration looks to have peaked with telework arrangements becoming less common. Skilled newcomers look to have supported hiring to begin the year, but gains have tapered off in recent months—particularly in key high-wage services industries.

As a more housing-oriented provincial economy, NS could see a meaningful slowdown as the latest round of rate hikes bites. Home sales and prices rallied in Q2—undoubtedly helped by torrid headcount gains—but sales rises were more muted than in other provinces.

Like PEI, Nova Scotia's exports look to be benefiting from China's reopening. Yet a softer expansion in that country next year and the prospect of a US recession cloud the outlook.

GRAPH 6
Even amid Multi-Decade Highs Nationwide, Nova Scotia's Recent Population Growth Stands Out



Sources: Statistics Canada and Desjardins Economic Studies

NEW BRUNSWICK

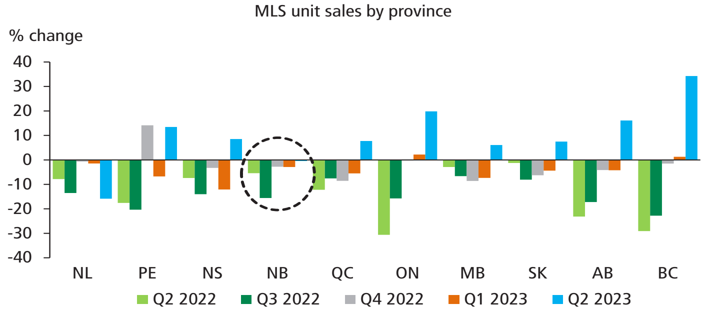
We expect New Brunswick's (NB) economy to experience middle-of-the-pack growth in 2023 and 2024, at the intersection of multiple forces.

Like the other Maritime provinces, NB is seeing record-high population growth. As in Nova Scotia, the population is aging and contributions from interprovincial flows have decreased alongside remote work. But NB's recent gains have been less reliant on non-permanent residents, and the province has one of the best records in the nation when it comes to immigrant labour market integration. That helped put a floor under home sales activity when monetary tightening began, though NB's 2023 housing rebound has lagged that in many other provinces (graph 7).

Where NB differs from the rest of the region is its exposure to commodities. On this front, the outlook is less optimistic. Softening US growth and homebuilding do not bode well for the lumber industry. And shipments from the Saint John refinery—Canada's largest and currently undergoing a strategic review—should be impacted by weaker refined petroleum prices.

But NB still boasts two key advantages. One is that its economy is less exposed to housing- and interest-sensitive sectors than most provinces. Another is the recent improvement in its fiscal position [versus other jurisdictions](), which leaves room for economic support if necessary.

GRAPH 7
New Brunswick Saw a Smaller Initial Housing Contraction and a Softer Rebound



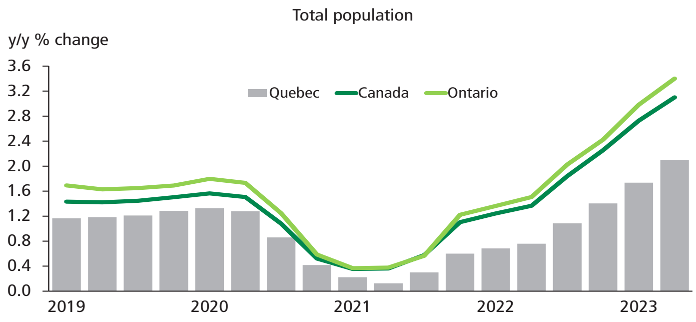
Sources: Canadian Real Estate Association and Desjardins Economic Studies

QUEBEC

In Quebec, slower population gains than in the rest of Canada (graph 8) mean less demographic support for the economy. Real GDP and employment haven't seen the same momentum as in other parts of the country. Residential construction has continued to fall in Quebec, with only a slight rebound in the resale market. Business investment and international exports are also down provincially but holding up nationally. The recent wildfires are an additional obstacle to output and exports, particularly in the wood products and paper industries.

So far, strong consumer spending has managed to keep Quebec's economy afloat. There are several contributing factors that have driven Quebec incomes up and boosted the savings rate. For one thing, Quebec was the most generous province in terms of household financial support in 2022. For another, the labour market remains tight, with unemployment close to 4.0% and rapid wage growth supporting workers' incomes. But labour market momentum has noticeably cooled. Only 34,000 jobs were created in the first six months of 2023, a markedly slower pace than the 84,000 jobs in the last half of 2022. It was also only a fraction of the 290,000 jobs added nationally. A slowing job market plus higher interest rates suggest headwinds ahead for Quebec consumers. As a result, Quebec's economy remains on fragile footing and our scenario predicts a period of real GDP contraction lasting into early 2024.

GRAPH 8
Slower Population Growth in Quebec Means Less Support for the Economy



Sources: Statistics Canada and Desjardins Economic Studies

ONTARIO

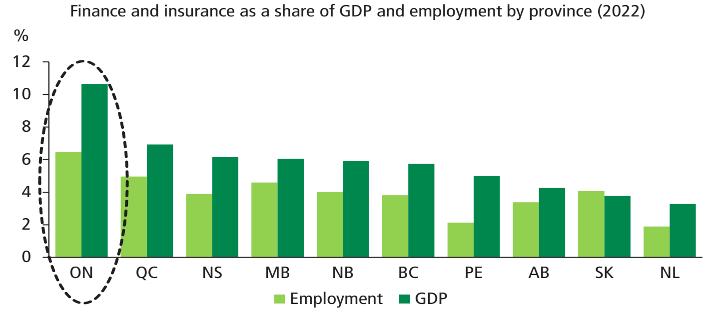
Following several upbeat data releases, we've revised our 2023 economic forecast significantly higher in Canada's largest province.

Ontario has recently experienced some of the strongest headcount gains of any jurisdiction, which helped drive a hefty 4% (q/q annualized) GDP expansion in Q1. Newcomers are helping fill job vacancies accrued during COVID-19, and the province continues to churn out jobs. That lifted home sales by 22% between January—when the Bank of Canada's short-lived pause began—and May.

Recovering automobile production also bodes well for the province. Forecasts from Wards Automotive call for Canadian car output—nearly all of which occurs in Ontario—to surge by 20% in 2023, which should partly offset drag from a potential US economic slowdown.

The outlook is less sanguine for late 2023 and early 2024. Retail sales data released since Q1 suggest a more significant consumer spending slowdown in Ontario than in most other provinces. [Toronto home sales plunged in June]—the month when the Bank of Canada resumed rate hikes. [Population growth faces downside risk] given its concentration in temporary labour. Households also remain heavily indebted. And interest-sensitive financial services account for an outsized share of provincial GDP and employment (graph 9).

GRAPH 9
Ontario's Economy Remains Vulnerable to a Slowdown in Financial Services



Sources: Statistics Canada and Desjardins Economic Studies

MANITOBA

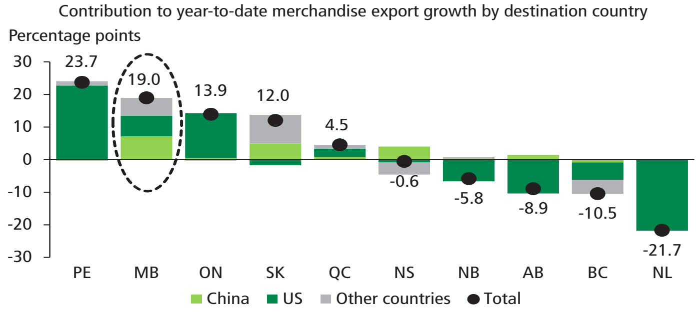
After a good start to 2023, Manitoba's economy should outperform the national average this year. And limited housing exposure likely means only a moderate slowdown next year.

The labour market's strong start to the year should support incomes as growth softens. Through June, Manitoba's full-time hiring gains led the country. These include robust contributions from construction and natural resources, mirroring mine investments planned for the next few years. That has helped drive above-average retail sales gains and a decent housing market rebound.

Exports have benefited from China's reopening and strong agricultural prices, but this effect should ease as that country and the US see weaker growth next year. Manitoba has seen the second-best nominal export growth of any province so far in 2023, with characteristically broad-based demand (graph 10).

Manitoba's relative demographic prospects are mixed. Though the province is experiencing record headcount gains, their pace has lagged the national average for most of the last five years. That partly reflects 40-year highs in net interprovincial outflows, which are still trending negatively. But its young population has a high birth rate, and the province should continue to benefit from high rates of immigrant arrivals and integration versus other jurisdictions in Canada.

GRAPH 10
Export Growth Has Been Strong and Balanced in the Keystone Province



Sources: Statistics Canada and Desjardins Economic Studies

SASKATCHEWAN

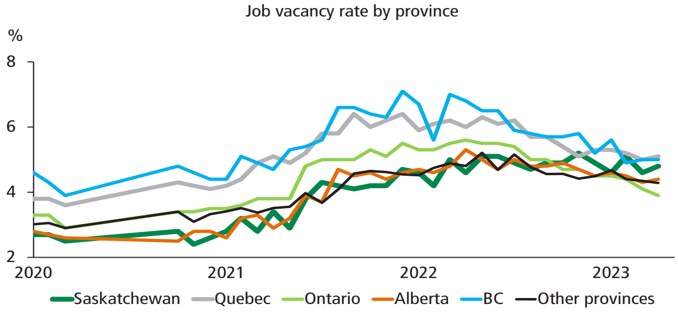
We still expect commodity production and investment-led gains to put Saskatchewan near the top of the provincial growth table.

For investment, the key driver remains the first stage of the $7.5B Jansen potash mine already well underway. That should be complemented by work on multiple canola processing facilities.

Oil, agriculture and uranium output should continue to rise, the last via the restart of the McArthur River and Cigar Lake mines. China's reopening and strong prices for the province's range of staple crops are lifting export values, though droughts are an ongoing risk. Yet potash's outlook is clouded by recent news that output will be curtailed in response to potential input product shortages.

Labour market gains have lagged the national average so far in 2023, but a few indicators imply that Saskatchewan will outperform going forward. The province's April job vacancy rate trailed only that of BC and Quebec (graph 11). As such, recent record population gains—boosted more by international immigration than anywhere else—should help fill job shortages over time. And the province remains little exposed to real estate and higher interest rates, limiting the risk of slowdown as monetary policy effects take hold.

GRAPH 11
Outsized Population Gains from Immigration Should Help Saskatchewan's Still-Tight Labour Market



Sources: Saskatchewan Ministry of Finance and Desjardins Economic Studies

ALBERTA

Alberta maintained economic momentum in Q2 despite multiple headwinds and looks well-positioned for the coming Canadian slowdown.

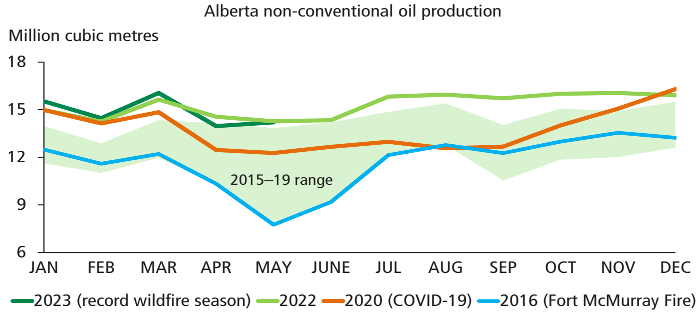
Wild Rose Country may have avoided the worst possible economic outcome from this year's wildfires. In May 2023, oil sands output was roughly in line with the prior year level (graph 12). We expect it to continue to ramp up as new capacity comes online, building on solid Q1 oil and gas capital investment gains.

The effects of softening global crude values are being blunted by a tighter WCS–WTI discount. Tightening reflects replenishment of the US Strategic Petroleum Reserve and refinery reopening. Later in 2023, transportation capacity for Western Canadian oil will benefit as the Trans Mountain Pipeline expansion comes online. This should help oil and gas industry profitability and mitigate the hit to public finances in the event of sustained WTI price weakness.

The recent surge in Alberta's population growth looks reasonably durable to us. Drawn by still relatively affordable housing, people continue to flock to the province from other parts of Canada, underpinning the fastest working-age headcount gains in the country. Alongside international immigration, this provides a tailwind for Alberta housing activity, even amid high interest rates and household indebtedness.

GRAPH 12

Oilsands Output Has So Far Avoided the Worst-Case Scenario during This Year's Wildfires



Sources: Alberta Energy Regulator and Desjardins Economic Studies

BRITISH COLUMBIA

We've revised our projections for British Columbia (BC) this year materially higher, but still expect a slowdown in 2024.

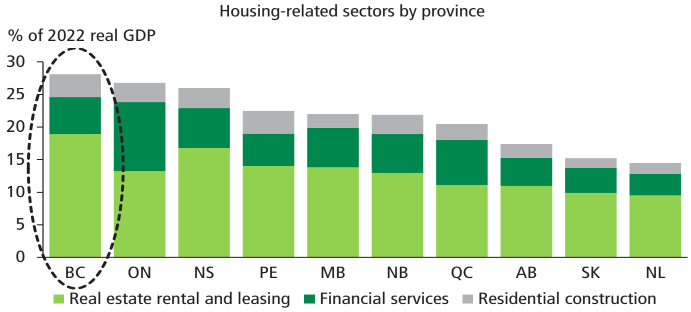
Following a pronounced 2022 correction, BC's early-2023 housing market recovery has been the strongest of any province, helped by the pause in interest rate hikes and decades-high population growth. Housing starts have also proved more resilient to higher borrowing costs than in other provinces.

But there may not be much more room to run. Non-permanent resident admissions have significantly boosted recent headcount gains but could ease alongside economic growth. And Vancouver home sales volumes softened after rate hikes resumed. BC remains Canada's most housing-oriented provincial economy (graph 13). And with borrowing costs sharply higher, it has seen weaker employment and retail sales gains than many other provinces to date in 2023.

Still, the province holds many long-term advantages, including a broad industrial base, a particularly diversified export profile and one of Canada's lowest public debt burdens.

Trade prospects are murky. Any further weakness in metal, gas or forest product prices will weigh on exports. China's reopening has provided a tailwind to the province, but softer growth next year will likely pose a drag.

GRAPH 13
Housing Plays a Big Role in BC's Economy



Sources: Statistics Canada and Desjardins Economic Studies

SUMMARY FORECAST TABLE

TABLE
Canada: Major economic indicators by province

ANNUAL AVERAGE IN % (UNLESS OTHERWISE INDICATED)	2019	2020	2021	2022f	2023f	2024f
Real GDP growth* – Canada	**1.9**	**-5.1**	**5.0**	**3.4**	**1.7**	**0.3**
Newfoundland and Labrador	4.0	-4.6	0.6	-1.7	1.7	1.1
Prince Edward Island	4.5	-1.6	7.9	2.9	2.1	0.6
Nova Scotia	3.4	-3.5	6.2	2.6	1.7	0.3
New Brunswick	1.3	-2.7	5.9	1.8	1.2	0.4
Quebec	2.8	-5.0	6.0	2.8	0.4	0.3
Ontario	2.1	-4.7	5.2	3.6	1.6	0.1
Manitoba	1.2	-4.4	1.8	3.9	2.2	0.7
Saskatchewan	-0.4	-4.8	-0.9	5.7	2.8	0.9
Alberta	0.1	-8.0	4.8	5.1	2.9	1.0
British Columbia	2.6	-3.0	6.1	3.6	1.5	0.2
Nominal GDP growth* – Canada	**3.5**	**-4.5**	**13.6**	**10.9**	**1.7**	**2.3**
Newfoundland and Labrador	3.6	-10.0	17.7	14.6	-2.8	4.6
Prince Edward Island	6.5	1.4	14.3	8.1	3.2	2.1
Nova Scotia	4.4	0.0	10.9	6.7	2.5	1.5
New Brunswick	2.4	-1.6	13.8	8.9	1.7	2.0
Quebec	4.6	-1.9	11.8	10.0	2.1	1.8
Ontario	3.9	-2.9	10.3	9.2	2.7	1.4
Manitoba	1.7	-1.3	8.4	8.1	3.0	2.7
Saskatchewan	1.0	-7.6	13.1	15.2	-1.8	4.4
Alberta	1.7	-15.7	26.2	18.1	-1.2	5.0
British Columbia	3.9	-0.7	14.2	10.0	2.5	2.7
Total inflation rate – Canada	**1.9**	**0.7**	**3.4**	**6.8**	**3.6**	**2.2**
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	3.9	2.1
Ontario	1.9	0.6	3.5	6.8	3.3	2.2
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**	**2.1**	**0.4**
Newfoundland and Labrador	1.6	-6.4	3.6	4.3	1.6	0.4
Prince Edward Island	3.3	-3.5	4.1	5.3	4.6	1.0
Nova Scotia	2.8	-4.6	5.6	3.6	2.1	0.3
New Brunswick	0.5	-3.0	3.2	2.7	2.7	0.5
Quebec	1.7	-5.4	4.3	3.0	2.0	-0.5
Ontario	2.5	-5.4	5.2	4.6	2.4	0.4
Manitoba	1.2	-4.3	3.7	3.2	2.2	0.6
Saskatchewan	1.7	-5.0	2.6	3.5	1.3	1.1
Alberta	1.1	-7.0	5.5	5.2	3.1	1.2
British Columbia	2.6	-6.2	6.2	3.1	1.1	0.5
Unemployment rate – Canada	**5.7**	**9.7**	**7.5**	**5.3**	**5.5**	**6.9**
Newfoundland and Labrador	12.2	14.5	13.1	11.2	9.2	9.9
Prince Edward Island	8.7	10.7	9.9	7.5	9.1	10.5
Nova Scotia	7.4	9.9	8.6	6.6	6.2	7.5
New Brunswick	8.2	10.3	9.1	7.2	6.2	7.2
Quebec	5.1	8.9	6.1	4.3	4.4	5.8
Ontario	5.6	9.8	8.1	5.6	5.7	7.3
Manitoba	5.3	8.2	6.4	4.5	4.9	6.3
Saskatchewan	5.5	8.3	6.5	4.7	4.8	5.9
Alberta	6.9	11.4	8.5	5.8	6.2	7.2
British Columbia	4.8	9.1	6.5	4.6	5.5	6.9

* 2022 figures based on preliminary estimates of real GDP by industry
f: forecast