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ECONOMIC VIEWPOINT

Desjardins Provincial Outlook:

Ontario Is Outperforming Canada, but Oil Producers Are Still Best Positioned to Weather the Coming Storm

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Summary

- We've revised growth lower in most provinces this year, with significant reductions in Alberta and British Columbia following early-year softness in commodity production. Meanwhile Ontario's early-year momentum puts its growth on track to beat the national average.
- Yet the Canadian economy still hasn't experienced the full impact of the sharp rise in interest rates. As it does, most provincial economies will see headline growth slow. But those provinces whose output is most housing-oriented and households are most indebted will feel it most.
- Decades-high population growth continues to lift economic activity across the provinces. But it's also masking weakness in GDP per capita, and increased reliance on temporary migration means there's a risk that a demographic slowdown will reinforce the coming economic downturn.

OVERVIEW

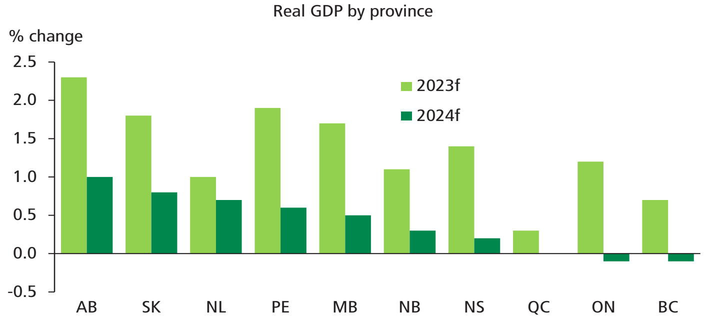
Ontario Is Outperforming Expectations

We still expect most provinces to experience much weaker economic activity in 2024 (graph 1). This mirrors our [forecast for growth at the national level](). But new data suggest another tweak to this year's growth rankings is in order.

Ontario's real GDP growth outpaced the Canadian rate in the first two quarters of 2023, so its headline expansion will almost certainly beat the national average this year. That's despite downward revisions to the first-quarter climb. By contrast, given Quebec's very weak second quarter, we still expect that province to be a growth laggard this year.

GRAPH 1
Oil-Producing Provinces Are Still Expected to Weather the Coming Storm the Best

Real GDP by province



f: forecast
Sources: Statistics Canada and Desjardins Economic Studies

A second-quarter contraction across the other provinces—anchored by negative net exports (graph 2 on page 2)—is more consequential. This suggests earlier softness in lumber and oil production has weighed on BC's and Alberta's economies more than we previously expected. With effects from the Port of

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Vancouver strike and oil sands maintenance work in the summer months, this implies more modest growth in the middle of 2023. Meanwhile, other commodity-producing provinces are contending with drought conditions and more muted production prospects for some of their key products.

Rates and Housing Exposure Are Still Driving the 2024 Projections

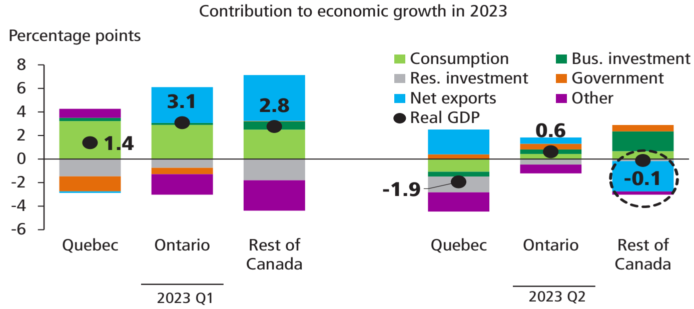
Beyond this year, however, we still think oil producers have the best economic prospects of any of Canada's provinces. The Canadian economy still hasn't experienced the full impact of the sharp rise in borrowing costs. As it does, Ontario and BC—where GDP is most housing-oriented and households are most indebted—could feel the pinch the most. In fact, we've already seen major housing markets in these regions take a much bigger step back than most other cities since the Bank of Canada resumed hiking rates. By contrast, we still think that Alberta, Saskatchewan, and Newfoundland and Labrador will avoid the worst of the coming downturn. That reflects our expectations of support from solid commodity prices, likely rebounds in commodity output and relatively little exposure to housing.

A Rise in Temporary Migration Poses a Downside Risk

Canadian population growth has continued to lift economic activity since our last outlook, but it's also become even more reliant on temporary migration. Admissions of temporary workers and international students tend to fall when labour demand eases, and that means there's a risk that a population growth slowdown will exacerbate the coming economic downturn. Broadly speaking, that suggests less vulnerability for the Prairies and Maritimes, which are getting population growth from permanent resident arrivals, interprovincial migration and some natural growth. On the other end of the spectrum, Quebec, Ontario and BC are more at risk because of their dependence on net non-permanent resident admissions (graph 3).

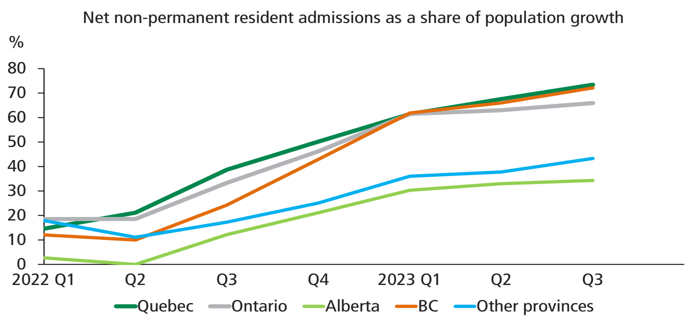
Still, it appears that across Canada, population-induced support for headline economic growth is masking deeper weakness. GDP per capita—a broad measure of economic wellbeing—fell again in the second quarter (graph 4).

GRAPH 2
Economic Activity Shifts Lower as Weak Net Exports Hit Growth Outside Central Canada in Q2



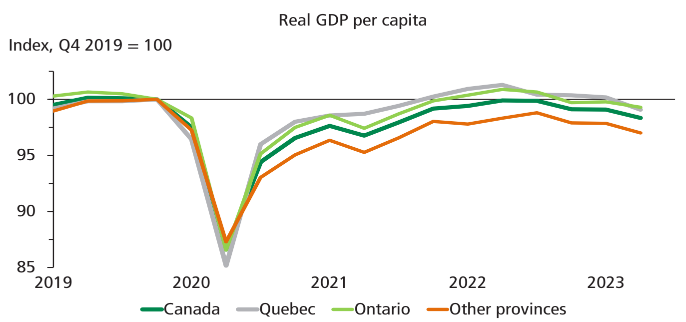
Sources: Statistics Canada, Insitut de la Statistique du Québec, Ontario Ministry of Finance and Desjardins Economic Studies

GRAPH 3
The Role of Temporary Migration Is Increasing in Most of Canada



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 4
The Population Boom is Masking Economic Gloom Across Canada's Provinces



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

NEWFOUNDLAND AND LABRADOR

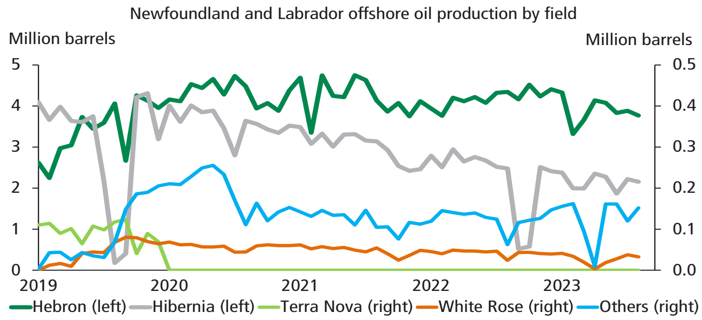
Weakness in oil production—Newfoundland and Labrador's largest industry—continues to hold back the expansion, but the drag should ease beyond this year. Activity is ramping back up at the White Rose field following maintenance work earlier this year (graph 5). Potential resumption of operations at Terra Nova—offline since 2020—presents some upside potential beyond 2023.

NL's population growth rate lags the national average, and this appears to have translated into weaker economic activity than elsewhere. Hiring and retail sales are slowing and have not kept up with the gains seen in other jurisdictions. Looking ahead, easing interprovincial migration and reductions in telework arrangements are inauspicious, though relatively little reliance on temporary migration limits the risk of a more severe headcount downturn.

Relative affordability and limited reliance on housing-related sectors remain advantages. Home sales and prices have not been as hard-hit by rate hikes in NL as in other provinces.

Major project activity is also auspicious. Ventures slated for 2023–24 include the West White Rose offshore oilfield extension and the Voisey's Bay underground mine. NL continued to lead the provinces in year-to-date real non-residential capital outlays as of Q2 2023.

GRAPH 5
The Terra Nova Closure Is Still Weighing on Crude Output



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

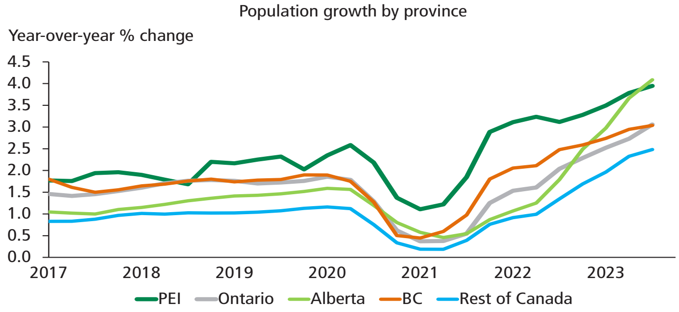
PRINCE EDWARD ISLAND

Population growth has long been a significant contributor to Prince Edward Island's expansion, and that didn't change last quarter. Though the Island lost the top ranking for annual headcount gains to Alberta—the first time since 2018 (graph 6)—its demographic growth continues to be supported by gains in multiple components. That makes PEI's economy less susceptible to a reduction in temporary migration. With that strong support, outperformance on a variety of labour market and consumer spending variables has persisted, though homebuilding and housing price growth are weakening.

Export gains have also persisted of late, but the outlook may be softening. Food manufacturing has been a key driver. Seafood exports have continued to pick up following Hurricane Fiona-related disruptions, though they remain below year-earlier levels. Yet the value of staple potato shipments has come back to earth from a surge after the American export ban was lifted. Many farmers now fear that cool and wet summer weather will hurt the harvest. And the slower growth we forecast for the US and China—PEI's principal export markets—suggest weaker trade flows going forward.

As sustained high interest rates continue to erode household spending power, we also expect an outsized impact on tourism—a key industry in PEI.

GRAPH 6
PEI Loses the Top Spot for Population Growth, but Keeps the Momentum Going



Sources: Statistics Canada and Desjardins Economic Studies

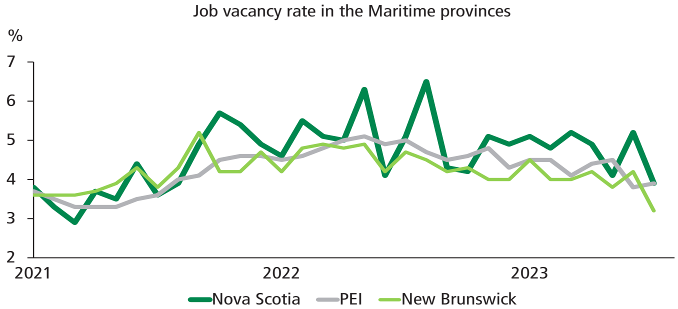
NOVA SCOTIA

Nova Scotia's population prospects are solid but look mixed versus other provinces. Its record headcount gains continue to exceed historical norms by more than in many other regions. They're also helping to mitigate damage to the housing market from higher rates. As well, its labour market remains tighter than others in the Maritimes (graph 7) despite the presence of high-wage financial services, where conditions have loosened at the national level. Persistent job shortages limit downside risk related to future layoffs. But more so than elsewhere in the Maritimes, population gains are reliant on temporary migration, which should slow as economic growth softens.

The province's economy is more exposed than most to housing-related sectors, which should increasingly feel the drag from high interest rates. Tourism spending is also vulnerable in this respect. Yet NS consumers are less indebted than the national average, so their spending is less exposed to the effects of high borrowing costs.

Business investment has so far held up reasonably well in the province and should receive support from the province's ambitious capital plan going forward. Aiming to support the needs of a growing population, it was largely on track as of the first-quarter fiscal update, despite delays seen in other provinces.

GRAPH 7
Despite Record Population Growth, Tightness in Nova Scotia's Labour Market Has Not Abated



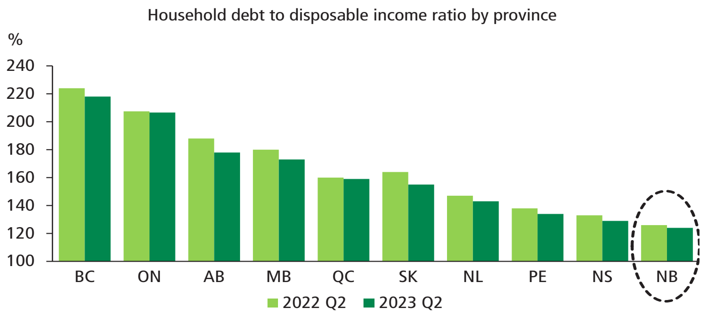
Sources: Statistics Canada and Desjardins Economic Studies

NEW BRUNSWICK

New Brunswick continues to enjoy the advantages we previously highlighted. The province witnessed a record rate of population growth in the first quarter. With roughly even contributions from temporary and permanent migration, it's less exposed to a potential demographic downturn than other provinces, even if interprovincial migration has not maintained a record pace. That has helped support better housing market outcomes than most elsewhere. On top of relative affordability and low household debt levels (graph 8), that means less exposure to the housing-induced downturn we expect to impact national-level growth as we progress into 2024. And NB maintained balanced books and projections for declining debt loads throughout the pandemic. With stronger-than-anticipated revenues last year, it has more room to offer new economic support measures if necessary.

Still, risks remain. Weakness in crude values and forest product prices has weighed on NB's exports and manufacturing sector, though oil's recent rally may help in the coming months. The Saint John oil refinery—Canada's largest—is still undergoing a strategic review. And with few major projects expected to break ground in the next two years, achieving infrastructure spending targets—increased last fall—will be key to sustaining near-term investment growth.

GRAPH 8
New Brunswick Households Are Carrying Relatively Little Debt



Sources: Statistics Canada and Desjardins Economic Studies

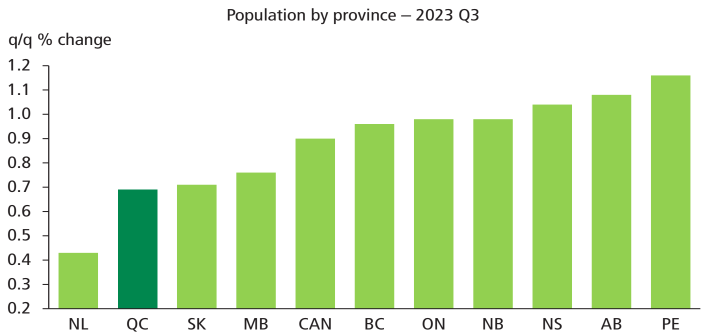
QUEBEC

The economy has been much weaker in Quebec than in Canada as a whole this year. Annualized real GDP growth came in at 1.4% in the first quarter in Quebec compared to 2.6% nationwide. And Quebec's economy shrank 1.9% in Q2, much more than Canada's 0.2% contraction. We expected Quebec to fall to the bottom of the provincial growth rankings this year, and it looks like our call will be correct. But the gap between Quebec and the rest of Canada should narrow next year as economic challenges mount in some other provinces.

Two factors in particular are behind Quebec's economic weakness this year. First, despite its fastest pace in 50 years, Quebec's population growth still lags behind virtually every other province (graph 9). That means the economy is getting less support from consumers. Meanwhile real consumer spending fell 2.0% in Quebec in the second quarter while that figure held steady in Canada overall.

Second, residential construction is down nearly 40% since the start of the year—one of the biggest declines in Canada. That's because up until last year, rental apartments accounted for about 60% of total housing starts. Rising interest rates have hit residential construction especially hard in Quebec, making it even tougher for rental property developers to get financing. Our expectation for interest rate cuts next year, combined with the recently announced $1.8B joint federal–provincial investment in social and affordable housing over the next five years, should help housing starts find their footing in the province.

GRAPH 9
Quebec Has the Second Slowest Population Growth in the Nation



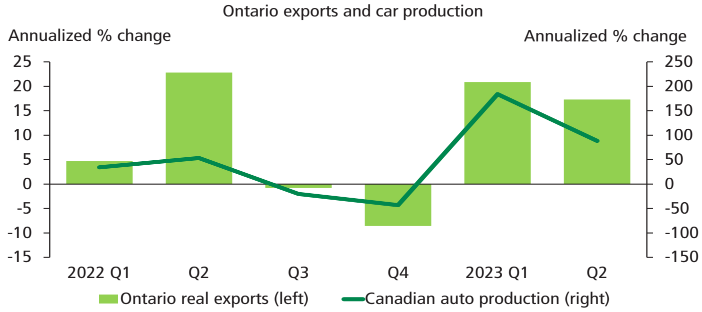
Sources: Statistics Canada and Desjardins Economic Studies

ONTARIO

Ontario's economic growth continues to beat the national average. The province has recorded its strongest population gains in over 50 years, helping household consumption. Easing mortgage rates early in 2023 following the Bank of Canada's pause in monetary tightening spurred a rally in home sales, preventing a deeper drop in residential investment in the second quarter. And a rebound in car production—following a supply chain-induced plunge in 2021—has been a major tailwind. This lifted exports from April to June 2023 (graph 10), while Quebec and BC grappled with forest fires and Alberta faced lower oil production.

The outlook remains far less positive. Since rate hikes resumed, the province's housing markets have taken a beating. The economy remains highly sensitive to housing and related sectors like financial services and construction, which will increasingly feel the delayed effects of sustained high rates. Job vacancies are coming down more quickly in the province than in most others. Dependence on temporary migration leaves Ontario vulnerable to a population slowdown. And Wards Automotive expects automobile production to drop in 2024, just when we anticipate that softening US growth will weigh on demand for Ontario exports.

GRAPH 10
Ontario Trade Has Gotten a Boost From the Automotive Sector This Year



Sources: Statistics Canada, Wards Automotive and Desjardins Economic Studies

MANITOBA

Manitoba's economy is still carrying solid momentum into 2024. The province has seen one of the best rates of full-time hiring growth of any jurisdiction to date, with help from the construction and natural resources sectors as mine investments proceed this year. That is supporting solid retail sales gains and better-than-average housing market results. With limited exposure to housing-related sectors—or any one industry for that matter—and low levels of household indebtedness, we expect Manitoba consumer spending to outperform the Canadian average going forward.

Exports also continue to outpace increases in other provinces, but recent gains may not persist. Manitoba has reaped huge benefits from skyrocketing Chinese import demand (graph 11), especially for staple wheat, soybeans and canola. But weather-related agricultural disruptions remain a risk, and slowing Chinese and US growth are bad news for exports broadly, including in the pharmaceutical and transportation equipment sectors.

The incoming NDP government's election platform suggests that fiscal policy will target healthcare spending and offer some pocketbook relief. Promised cost of living measures total a modest $185M (0.2% of GDP) next calendar year. But the fiscal backdrop is subject to much potential change between now and the first year of the platform's forecast period.

GRAPH 11
Chinese Trade Is Bolstering Manitoba's Economy

* Based on January to August data
Sources: Statistics Canada and Desjardins Economic Studies

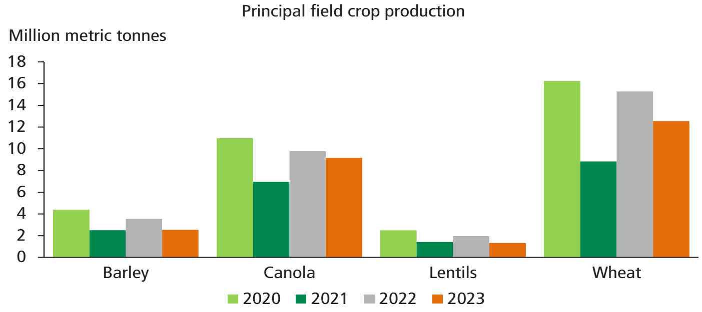
SASKATCHEWAN

Prospects have soured for some key Saskatchewan commodities, leading us to revise the province's growth lower for 2023. Because of dry growing conditions, Statistics Canada's annual crop production survey now estimates big drops in the output of agricultural products (graph 12). That follows a challenging two-year period for the sector in which a major drought drove an output contraction and put upward pressure on government spending. More normal weather should support a rebound next year, but China's expansion remains a wildcard for agriculture. Some potash firms also scaled back production in response to the Vancouver port strikes.

But there are still many positives. Uranium output should continue to rise following the restart of the McArthur River and Cigar Lake mines. Oil production is also climbing, albeit more slowly than budget forecasts so far. Moreover, the first stage of the $7.5B Jansen potash mine continues and should offer a boost to economic activity alongside work on canola processing facilities.

We're also still sanguine on labour market prospects despite below-average performance to date in 2023. Saskatchewan is relatively unexposed to housing- and rate-sensitive sectors. And its job vacancy rate trails only that of Quebec, suggesting tight labour market conditions that will limit layoffs going forward.

GRAPH 12
Saskatchewan's Agricultural Sector Has Posted Weak Production in 2023



Sources: Statistics Canada and Desjardins Economic Studies

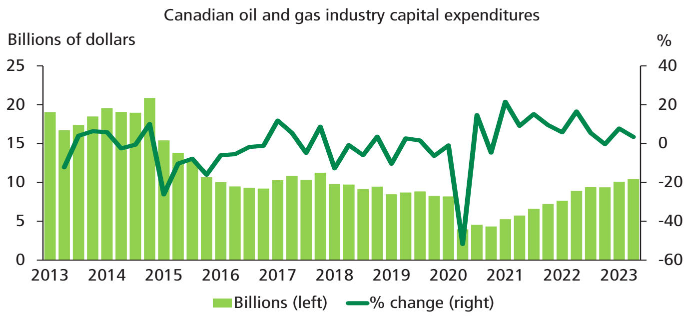
ALBERTA

Alberta's economy still looks well positioned to avoid the worst of the coming Canadian downturn. But an extended oil sands maintenance period could weaken its second half growth rate. Most of the softness in oil production this summer appears to relate to this effect—not the wildfires—which implies a rebound in output as we get closer to 2024. That's in line with production forecasts and plans to ramp up capacity in the coming years.

Oil prices and energy investment also remain supportive. Second-quarter capital outlays in the industry remained solid (graph 13). We've upgraded our WTI forecast, and the current oil price rally is good for industry profitability and government revenues. Although the discount between Alberta and American oil prices has widened of late, it should get help from new transportation capacity as the Trans Mountain Pipeline expansion comes online later this year.

Alberta's economy is also getting a boost from outside the staple oil and gas sector. Business investment is getting help from renewable energy as well. A combination of reasonably strong oil prices and a weak Canadian dollar should be beneficial for manufacturers. Employment growth is strong. And the population continues to advance at a nation-leading, balanced and durable rate. The Calgary and Edmonton housing markets have thus largely shrugged off the second round of interest rate hikes.

GRAPH 13
Energy Sector Investment Has Performed Well in 2023



Sources: Statistics Canada and Desjardins Economic Studies

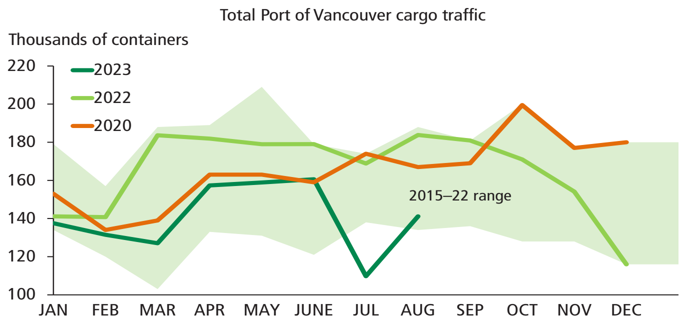
BRITISH COLUMBIA

BC's expansion appears to have been impacted by softer-than-previously-anticipated exports. The drag on provincial growth from net exports in the second quarter suggests that weak lumber production and exports in the first half of this year have had an impact. The Port of Vancouver strike added to that weakness in July, and despite a bounce-back in August, container volumes are below recent levels (graph 14). Soft natural gas and forest product prices, combined with expectations of weak growth in China, also bode poorly for trade given the province's close economic ties to that country.

Looking ahead, sustained high interest rates should continue to weigh on consumers and the housing market. Housing activity has fallen back more in Vancouver than in most major cities since monetary tightening resumed. Consumers in the province remained Canada's most indebted as of the second quarter. And BC's economy remains highly housing oriented. Employment and retail sales gains continued to lag the national average since our last outlook.

Still, the province holds a strong fiscal position, leaving room for economic support as needed. Despite a deeper first-quarter budget deficit forecast this year than in Budget 2023, BC has one of the lowest public debt burdens among Canadian provinces.

GRAPH 14
Trade Was Already Down Before the July Port Strike



Sources: Port of Vancouver and Desjardins Economic Studies

SUMMARY FORECAST TABLE

TABLE 1
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**	**1.1**	**0.1**
Newfoundland and Labrador	4.0	-4.6	0.6	-1.7	1.0	0.7
Prince Edward Island	4.5	-1.6	7.9	2.9	1.9	0.6
Nova Scotia	3.4	-3.5	6.2	2.6	1.4	0.2
New Brunswick	1.3	-2.7	5.9	1.8	1.1	0.3
Quebec	2.8	-5.0	6.0	2.6	0.3	0.0
Ontario	2.1	-4.7	5.2	3.7	1.2	-0.1
Manitoba	1.2	-4.4	1.8	3.9	1.7	0.5
Saskatchewan	-0.4	-4.8	-0.9	5.7	1.8	0.8
Alberta	0.1	-8.0	4.8	5.1	2.3	1.0
British Columbia	2.6	-3.0	6.1	3.6	0.7	-0.1
Nominal GDP growth* – Canada	**3.5**	**-4.5**	**13.6**	**10.9**	**2.1**	**2.4**
Newfoundland and Labrador	3.6	-10.0	17.7	12.1	-3.3	4.2
Prince Edward Island	6.5	1.4	14.3	8.4	2.9	2.0
Nova Scotia	4.4	0.0	10.9	6.7	2.2	1.5
New Brunswick	2.4	-1.6	13.8	8.4	1.4	1.9
Quebec	4.6	-1.9	11.8	9.6	3.1	2.0
Ontario	3.9	-2.9	10.3	9.2	3.6	1.9
Manitoba	1.7	-1.3	8.4	9.8	2.4	2.5
Saskatchewan	1.0	-7.6	13.1	16.3	-1.3	3.7
Alberta	1.7	-15.7	26.2	18.7	-1.0	4.5
British Columbia	3.9	-0.7	14.2	10.6	1.6	2.3
Total inflation rate – Canada	**1.9**	**0.7**	**3.4**	**6.8**	**3.8**	**2.5**
Newfoundland and Labrador	1.0	0.2	3.7	6.4	3.4	2.0
Prince Edward Island	1.2	0.0	5.1	8.9	3.1	2.5
Nova Scotia	1.6	0.3	4.1	7.5	4.0	2.4
New Brunswick	1.7	0.2	3.8	7.3	3.8	2.1
Quebec	2.1	0.8	3.8	6.7	4.5	2.6
Ontario	1.9	0.6	3.5	6.8	3.7	2.3
Manitoba	2.3	0.5	3.2	7.9	3.8	2.3
Saskatchewan	1.7	0.6	2.6	6.6	4.0	2.4
Alberta	1.7	1.1	3.2	6.5	3.3	2.3
British Columbia	2.3	0.8	2.8	6.9	3.7	2.2
Employment growth – Canada	**2.1**	**-5.6**	**5.0**	**4.0**	**2.2**	**0.3**
Newfoundland and Labrador	1.6	-6.4	3.6	4.3	1.8	0.1
Prince Edward Island	3.3	-3.5	4.1	5.3	5.1	0.6
Nova Scotia	2.8	-4.6	5.6	3.6	2.1	0.2
New Brunswick	0.5	-3.0	3.2	2.7	3.1	0.4
Quebec	1.7	-5.4	4.3	3.0	2.4	0.4
Ontario	2.5	-5.4	5.2	4.6	2.3	0.1
Manitoba	1.2	-4.3	3.7	3.2	2.1	0.4
Saskatchewan	1.7	-5.0	2.6	3.5	1.1	0.8
Alberta	1.1	-7.0	5.5	5.2	3.2	0.8
British Columbia	2.6	-6.2	6.2	3.1	1.2	0.1
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	9.5	10.4
Prince Edward Island	8.7	10.7	9.9	7.5	7.7	9.3
Nova Scotia	7.4	9.9	8.6	6.6	6.7	7.9
New Brunswick	8.2	10.3	9.1	7.2	7.0	7.9
Quebec	5.1	8.9	6.1	4.3	4.3	5.3
Ontario	5.6	9.8	8.1	5.6	5.7	7.4
Manitoba	5.3	8.2	6.4	4.5	5.0	6.3
Saskatchewan	5.5	8.3	6.5	4.7	5.0	6.1
Alberta	6.9	11.4	8.5	5.8	6.0	7.2
British Columbia	4.8	9.1	6.5	4.6	5.4	6.9

* 2022 figures based on preliminary estimates of real GDP by industry
f: forecast
Sources: Statistics Canada, Institut de la statistique du Québec, Ontario Ministry of Finance and Desjardins Economic Studies