

Vaccine progress brightens outlook for provincial economies

March 10, 2021

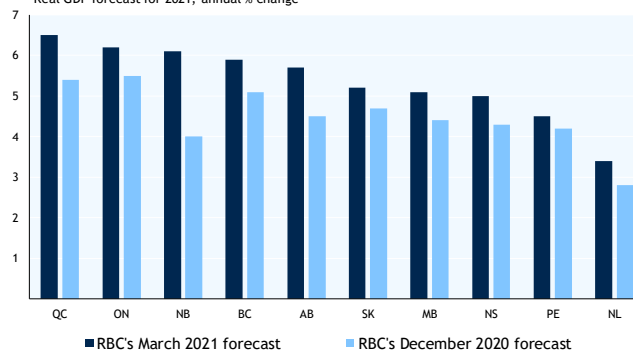
While pandemic uncertainty will take a while longer to clear, the economic picture has brightened materially since our last Provincial Outlook report. The recovery across Canada has been stronger than we expected despite the ferociousness of the second wave and three provinces put under lockdown as 2021 rolled in. And with mass vaccination campaigns now getting underway, we believe the pace of recovery will pick up. We have made significant upward revisions to our provincial growth forecast from coast to coast. We now project Quebec to lead the way with a growth rate of 6.5% in 2021, followed by Ontario (6.2%), New Brunswick (6.1%) and British Columbia (5.9%). Newfoundland and Labrador (up 3.4%) still faces several challenges—including the winding down of major capital project construction—and will trail all others.

We expect pent-up demand, high household savings, and government support and stimulus measures to provide substantial thrust to all provincial economies. The respective speed and extent of the phasing out of restrictions will largely determine when the economic engine in each province will rev up. The rebound in commodity markets and prices have boosted the prospects for resource-heavy provinces. This was behind some of the larger revisions we made to our growth forecast—we boosted growth by 1.2 percentage points to 5.7% in Alberta. Capital spending intentions also point to some provinces seeing significantly stronger investment activity this year, including Quebec, New Brunswick and Ontario. While others like Prince Edward Island, Nova Scotia, and Newfoundland and Labrador, will see capex spending fall contributing to lower positions in our growth rankings for 2021.

Our upgraded outlook is unquestionably good news. We now project all provinces but Alberta, and Newfoundland and Labrador will reverse their 2020 GDP loss this year. Still, provincial economies will operate well below where their pre-pandemic trajectories. Labour market bruises will take longer to heal fully—we expect unemployment rates to stay high despite gradually improving. And the resumption of activity in the hospitality sector and other high-touch industries will be a slow and potentially bumpy process—constrained by the likely loss of capacity. In short, things won't look and feel normal in 2021.

2021 outlook brightens for all provinces

Real GDP forecast for 2021, annual % change



Source: Statistics Canada, RBC Economics

Capital spending to vary widely across the country

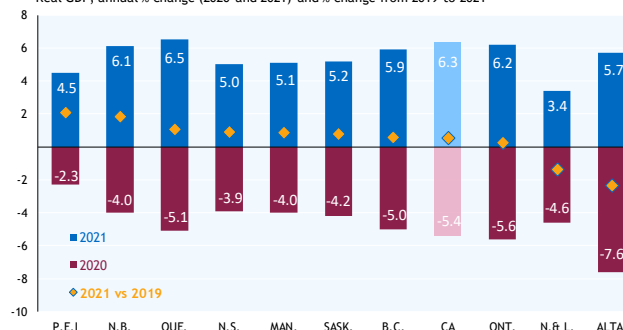
Capital expenditure intentions in 2021, annual % change



Source: Statistics Canada, RBC Economics

All but two provinces to fully reverse 2020 contraction this year

Real GDP, annual % change (2020 and 2021) and % change from 2019 to 2021



Source: Statistics Canada, RBC Economics

British Columbia: positive outlook for construction and exports

British Columbia started to ease restrictions before many other provinces, which will speed up the recovery of many of its service industries. We expect consumers will show up *en force* when the time comes. Strong housing demand and declining inventories will drive residential construction higher in the province. We have boosted our housing starts forecast by almost 3,000 units to 37,200 units in 2021. Similar developments across the continent bode well for British Columbia's wood products industry and exports. Business and public sector plans will see capital expenditures rise by 5.7% this year. The province has major projects underway, including the LNG Canada terminal in Kitimat, Site C hydroelectric dam and Coastal Gas Link pipeline.

Prairies Provinces: rebound in commodity markets is welcome news

An improved outlook for the energy sector will significantly enhance the picture in **Alberta**. Higher oil prices will pump much needed cash into the economy, which among other things will help revitalize drilling activity in the province. The strong recovery in the housing market has been a remarkable story. We believe it will set the stage for a material rebound in residential construction this year. While the provincial economy is headed in a positive direction, the road ahead will be long. We expect full recovery from last year's horrendous recession to be complete only in 2022—later than all other provinces except Newfoundland and Labrador.

Higher grain and other commodity prices will particularly benefit both Saskatchewan and Manitoba in 2021. Last year, **Saskatchewan's** agri-food exports surged on growing global demand, reversing an earlier export decline caused by China's ban on canola imports from Canada. We expect further gains this year, weather conditions permitting. Stronger global grain prices bode well for Saskatchewan's potash production and exports. Experts expect farmers around the world to use part of their larger crop revenue to broaden fertilizer use. The improving prospects for the energy sector is also positive for Saskatchewan. We expect increases in both drilling and production this year.

Food-product manufacturing capacity expanded significantly in **Manitoba** thanks to a new world-class pea protein processing facility. Food production will follow a steep upward trajectory this year as the new plant ramps up. As it does, demand for provincial pulses and exports also will grow. Manitoba's manufacturing sector will benefit from strong economic recoveries on both sides of the Canada-US border. New contracts awarded to Winnipeg electric bus manufacturer bode well for the province's motor vehicle industry.

Full speed ahead in Central Canada

Canada's most populous provinces have faced the most stringent restrictions nationally since the late-stages of 2020. Yet, we expect economic activity to quickly rebound as governments ease restrictions and service-sector businesses re-open. Significant pent-up demand and record-high household savings will get consumers to spend big. The housing market frenzy will drive up residential construction substantially. A surge in building permits signal housing starts are on track to reach the highest levels in decades in both provinces. As mass vaccination campaigns finally get off the ground, businesses are beginning to feel more confident. Capital investment intentions increased materially this year, up 10.8% in Quebec and 9.1% in Ontario. In **Quebec**, the public sector will account for more than two-thirds of the increase, as construction of public transit infrastructure kicks into higher gear. In **Ontario**, we're encouraged to see a noticeable increase in manufacturing sector, which will complement continued spending on public transit.

Atlantic Provinces: The tide turns

Higher energy product prices will be positive for **Newfoundland and Labrador** but won't be sufficient to fully turnaround the provincial economy. The province is one of only two that will fall short of 2019 output levels this year. Capital investment fell off a cliff in 2020 and 2021 doesn't look brighter with a further decline of 0.4% anticipated due to the winding down of major projects. Newfoundland will continue to be plagued by costs associated with Muskrat Falls, and the uncertainty surrounding the feasibility of West White Rose. What's more, the provincial government will be called on to make tough choices to address its precarious fiscal position.

On the other hand, we expect New Brunswick, Prince Edward Island and **Nova Scotia** to fully reverse last year's drop in GDP. Nova Scotia has made great progress so far, having recovered 94% of jobs lost during the pandemic. Capital investment will drive growth in **New Brunswick**. Businesses and public sector companies plan to boost their capital spending by 10.1% this year. And we see some scope for tourism to lift **Prince Edward Island's** economy—supplementing strong contribution from the province's food product sector. We believe it increasingly feasible to reach mass immunization against COVID-19 by mid-year, which could enable the loosening of travel restrictions within Canada. Freer travel would benefit all Atlantic economies.

Forecast details

% change unless otherwise indicated

	Real GDP				Nominal GDP				Employment				Unemployment, %				Housing starts, (000s)				Retail sales				CPI			
	19	20F	21F	22F	19	20F	21F	22F	19	20	21F	22F	19	20	21F	22F	19	20	21F	22F	19	20	21F	22F	19	20	21F	22F
N.& L.	4.0	-4.6	3.4	1.2	4.1	-8.5	10.6	4.6	1.1	-5.7	3.8	0.4	12.3	14.1	12.8	12.1	0.9	0.8	0.7	0.6	-0.2	1.6	4.3	2.6	1.0	0.2	2.6	2.0
P.E.I.	5.1	-2.3	4.5	3.2	7.0	-1.1	7.0	5.0	3.3	-3.2	4.8	2.3	8.7	10.4	9.2	9.2	1.5	1.2	1.1	1.0	3.9	1.4	8.8	3.9	1.2	0.0	2.2	2.1
N.S.	2.4	-3.9	5.0	3.3	3.8	-2.8	7.1	5.4	2.3	-4.7	6.4	1.6	7.4	9.8	8.0	7.3	4.7	4.9	6.3	4.4	2.5	-1.9	8.6	4.5	1.6	0.3	2.4	2.1
N.B.	1.2	-4.0	6.1	2.7	3.0	-2.9	8.6	4.7	0.8	-2.6	3.5	1.3	8.1	10.0	8.3	7.6	2.9	3.5	4.6	3.8	2.1	1.2	8.2	4.1	1.7	0.2	2.1	2.1
QUE.	2.7	-5.1	6.5	3.7	4.3	-4.0	8.4	5.8	2.0	-4.8	5.6	2.3	5.1	8.9	7.1	6.0	48.0	54.1	64.4	45.8	0.9	-0.2	10.9	4.9	2.1	0.8	2.2	2.0
ONT.	2.1	-5.6	6.2	4.2	3.8	-4.4	8.2	5.9	2.8	-4.8	5.5	2.4	5.6	9.6	7.8	6.0	69.0	81.3	92.9	75.8	2.3	-3.5	9.9	5.7	1.9	0.6	2.1	1.9
MAN.	0.6	-4.0	5.1	3.0	1.0	-2.8	7.2	4.9	1.0	-3.7	3.3	2.0	5.3	8.0	6.6	5.9	6.9	7.3	8.2	6.2	0.8	0.8	7.0	4.1	2.3	0.5	2.1	2.0
SASK.	-0.7	-4.2	5.2	3.8	0.1	-6.6	9.9	6.4	1.9	-4.7	3.7	2.2	5.6	8.4	6.5	5.9	2.4	3.1	4.8	3.2	0.3	-1.1	7.3	4.2	1.7	0.6	2.4	2.1
ALTA.	0.1	-7.6	5.7	4.7	2.7	-11.1	11.8	7.8	0.7	-6.6	4.9	2.4	7.0	11.4	9.4	6.5	27.3	24.0	28.1	24.0	-0.8	-2.3	8.0	5.0	1.7	1.1	1.9	1.9
B.C.	2.7	-5.0	5.9	4.9	4.4	-3.6	8.9	7.1	3.0	-6.6	6.1	2.5	4.7	8.9	6.7	5.6	44.9	37.7	37.2	35.0	0.6	2.4	9.4	6.0	2.3	0.8	2.0	1.9
CANADA	1.9	-5.4	6.3	4.1	3.6	-4.6	9.0	6.2	2.2	-5.2	5.4	2.3	5.7	9.5	7.7	6.1	209	218	248	200	1.2	-1.3	9.5	5.2	1.9	0.7	2.1	2.0

Key provincial comparisons

(2019 unless otherwise stated)

	Canada	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Population (000s, 2020)	38,005	522	160	979	781	8,575	14,734	1,379	1,179	4,422	5,148
Gross domestic product (\$ billions)	2,310.7	35.3	7.5	46.6	38.2	460.4	891.8	73.8	82.9	352.9	309.1
Real GDP (\$2012 billions)	2,102.3	34.1	6.6	41.5	33.6	407.6	798.2	68.1	86.6	347.1	271.8
Share of provincial GDP of Canadian GDP (%)	100.0	1.5	0.3	2.0	1.7	19.9	38.6	3.2	3.6	15.3	13.4
Real GDP growth (CAGR, 2014-19, %)	1.8	0.4	3.1	1.7	1.1	2.2	2.4	1.6	0.4	-0.2	2.8
Real GDP per capita (\$ 2012)	55,922	65,094	42,248	42,746	43,209	47,942	54,880	49,696	73,881	79,580	53,387
Real GDP growth rate per capita (CAGR, 2014-19, %)	0.6	0.6	1.4	1.0	0.7	1.3	1.1	0.2	-0.6	-1.5	1.2
Personal disposable income per capita (\$)	33,858	33,035	30,287	30,433	30,422	30,721	34,287	29,649	32,408	38,489	36,450
Employment growth (CAGR, 2014-19, %)	1.4	-1.0	1.7	0.8	0.4	1.5	1.6	1.0	0.3	0.4	2.7
Employment rate (Jan 2021, %)	58.6	49.9	58.9	56.6	55.8	57.9	57.7	60.1	61.6	61.8	60.2
Discomfort index (inflation + unemp. rate, Jan 2021)	10.4	14.3	8.4	9.6	9.5	10.1	11.3	8.7	8.1	11.5	9.1
Manufacturing industry output (% of GDP)	10.0	3.0	11.7	7.6	9.8	13.9	11.7	9.4	6.1	7.7	6.4
Personal expenditures on goods & services (% of GDP)	56.2	49.9	64.1	69.1	64.8	57.1	57.6	58.8	48.1	45.8	62.6
International exports (% of GDP)	31.9	44.6	24.1	18.1	37.5	28.8	34.1	24.2	40.9	37.1	24.1

Forecast Details

% change unless otherwise specified

British Columbia

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	2.0	2.8	3.8	2.7	2.7	-5.0	5.9	4.9
Nominal GDP	2.8	5.2	7.0	4.9	4.4	-3.6	8.9	7.1
Employment	1.7	3.5	4.1	1.4	3.0	-6.6	6.1	2.5
Unemployment Rate (%)	6.2	6.1	5.2	4.7	4.7	8.9	6.7	5.6
Retail Sales	7.0	7.7	9.3	1.9	0.6	2.4	9.4	6.0
Housing Starts (Thousands of Units)	31.4	41.8	43.7	40.9	44.9	37.7	37.2	35.0
Consumer Price Index	1.1	1.9	2.1	2.7	2.3	0.8	2.0	1.9

Alberta

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	-3.7	-3.5	4.5	1.9	0.1	-7.6	5.7	4.7
Nominal GDP	-14.0	-6.1	9.2	3.4	2.7	-11.1	11.8	7.8
Employment	0.4	-2.3	1.1	1.9	0.7	-6.6	4.9	2.4
Unemployment Rate (%)	6.1	8.2	7.9	6.7	7.0	11.4	9.4	6.5
Retail Sales	-4.0	-1.1	7.1	1.8	-0.8	-2.3	8.0	5.0
Housing Starts (Thousands of Units)	37.3	24.5	29.5	26.1	27.3	24.0	28.1	28.1
Consumer Price Index	1.2	1.1	1.5	2.5	1.7	1.1	1.9	1.9

Saskatchewan

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	-0.8	-0.1	2.6	1.2	-0.7	-4.2	5.2	3.8
Nominal GDP	-3.9	-5.0	6.0	3.2	0.1	-6.6	9.9	6.4
Employment	-0.2	-0.9	0.0	0.5	1.9	-4.7	3.7	2.2
Unemployment Rate (%)	5.1	6.4	6.4	6.2	5.6	8.4	6.5	5.9
Retail Sales	-3.3	1.5	4.1	-0.5	0.3	-1.1	7.3	4.2
Housing Starts (Thousands of Units)	5.1	4.8	4.9	3.6	2.4	3.1	4.8	3.2
Consumer Price Index	1.6	1.1	1.7	2.3	1.7	0.6	2.4	2.1

Manitoba

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	1.2	1.4	3.3	1.5	0.6	-4.0	5.1	3.0
Nominal GDP	2.5	2.1	5.9	2.5	1.0	-2.8	7.2	4.9
Employment	1.5	-0.3	1.7	1.1	1.0	-3.7	3.3	2.0
Unemployment Rate (%)	5.6	6.2	5.4	6.0	5.3	8.0	6.6	5.9
Retail Sales	1.3	3.7	7.8	2.2	0.8	0.8	7.0	4.1
Housing Starts (Thousands of Units)	5.5	5.3	7.5	7.4	6.9	7.3	8.2	6.2
Consumer Price Index	1.2	1.3	1.6	2.5	2.3	0.5	2.1	2.0

Ontario

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	2.5	2.1	2.8	2.8	2.1	-5.6	6.2	4.2
Nominal GDP	4.6	4.0	4.3	4.1	3.8	-4.4	8.2	5.9
Employment	0.5	1.1	1.9	1.7	2.8	-4.8	5.5	2.4
Unemployment Rate (%)	6.8	6.6	6.0	5.7	5.6	9.6	7.8	6.0
Retail Sales	5.3	6.9	7.7	4.5	2.3	-3.5	9.9	5.7
Housing Starts (Thousands of Units)	70.2	75.0	79.1	78.7	69.0	81.3	92.9	75.8
Consumer Price Index	1.2	1.8	1.7	2.4	1.9	0.6	2.1	1.9

Forecast Details

% change unless otherwise specified

Quebec

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	0.9	1.6	2.9	2.9	2.7	-5.1	6.5	3.7
Nominal GDP	2.9	3.0	4.9	5.4	4.3	-4.0	8.4	5.8
Employment	0.7	0.5	2.5	1.5	2.0	-4.8	5.6	2.3
Unemployment Rate (%)	7.6	7.2	6.1	5.5	5.1	8.9	7.1	6.0
Retail Sales	1.9	6.6	5.5	3.6	0.9	-0.2	10.9	4.9
Housing Starts (Thousands of Units)	37.9	38.9	46.5	46.9	48.0	54.1	64.4	45.8
Consumer Price Index	1.1	0.7	1.1	1.7	2.1	0.8	2.2	2.0

New Brunswick

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	0.7	0.8	2.5	0.5	1.2	-4.0	6.1	2.7
Nominal GDP	3.1	2.6	4.4	3.6	3.0	-2.9	8.6	4.7
Employment	-0.4	0.1	0.7	0.6	0.8	-2.6	3.5	1.3
Unemployment Rate (%)	10.0	9.7	8.2	8.0	8.1	10.0	8.3	7.6
Retail Sales	2.2	2.1	6.8	1.7	2.1	1.2	8.2	4.1
Housing Starts (Thousands of Units)	2.0	1.8	2.3	2.3	2.9	3.5	4.6	3.8
Consumer Price Index	0.5	2.2	2.3	2.2	1.7	0.2	2.1	2.1

Nova Scotia

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	0.7	1.6	1.8	1.9	2.4	-3.9	5.0	3.3
Nominal GDP	2.2	2.2	4.1	3.6	3.8	-2.8	7.1	5.4
Employment	-0.7	0.0	0.7	1.9	2.3	-4.7	6.4	1.6
Unemployment Rate (%)	8.7	8.4	8.6	7.7	7.4	9.8	8.0	7.3
Retail Sales	0.2	4.7	7.8	0.2	2.5	-1.9	8.6	4.5
Housing Starts (Thousands of Units)	3.8	3.8	4.0	4.8	4.7	4.9	6.3	4.4
Consumer Price Index	0.4	1.2	1.1	2.2	1.6	0.3	2.4	2.1

Prince Edward Island

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	1.4	2.1	4.7	2.5	5.1	-2.3	4.5	3.2
Nominal GDP	3.9	4.7	6.5	3.6	7.0	-1.1	7.0	5.0
Employment	-1.1	-1.5	3.5	4.2	3.3	-3.2	4.8	2.3
Unemployment Rate (%)	10.6	10.9	9.9	9.5	8.7	10.4	9.2	9.2
Retail Sales	2.6	7.3	6.3	2.7	3.9	1.4	8.8	3.9
Housing Starts (Thousands of Units)	0.6	0.6	0.9	1.1	1.5	1.2	1.1	1.0
Consumer Price Index	-0.6	1.2	1.8	2.3	1.2	0.0	2.2	2.1

Newfoundland and Labrador

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	-1.2	1.5	1.5	-3.5	4.0	-4.6	3.4	1.2
Nominal GDP	-9.2	1.1	6.9	0.8	4.1	-8.5	10.6	4.6
Employment	-0.7	-2.1	-2.1	0.6	1.1	-5.7	3.8	0.4
Unemployment Rate (%)	13.1	14.0	15.1	14.1	12.3	14.1	12.8	12.1
Retail Sales	0.7	0.4	2.4	-2.4	-0.2	1.6	4.3	2.6
Housing Starts (Thousands of Units)	1.7	1.4	1.4	1.1	0.9	0.8	0.7	0.6
Consumer Price Index	0.4	2.7	2.4	1.7	1.0	0.2	2.6	2.0

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.