

# Western provincial economies shining more brightly in 2022

June 7, 2022

The lifting of nearly all pandemic restrictions will benefit provincial economies this year but won't necessarily set growth on a higher trajectory. In fact, we expect growth to slow down in a small majority of provinces as earlier economic slack is fully absorbed and policy stimulus rolled back. Some pandemic-era issues (e.g. supply chain disruptions) will continue to pose challenges while soaring inflation is emerging as a major source of stress for businesses and households from coast to coast.

We believe the stronger performing provincial economies will be those most reliant on commodity production (with the exception of Newfoundland and Labrador). Booming global commodity markets will fuel tremendous activity in the primary sector.

While 2022 is shaping up to be a mixed bag among the provinces, we expect all to expand. We project growth will be strongest in Saskatchewan (+6.0%), Alberta (+5.7%) and Manitoba (4.8%). We have British Columbia (4.2%), Ontario (4.1%) and Quebec (3.6%) in the middle of the pack, with Atlantic Provinces trailing. Slower growth in the latter region primarily reflects the fact these provinces are further along their recovery.

## The Prairie Provinces have more ground to recover than previously thought

The release of preliminary GDP by industry numbers for 2021 brought some surprises. Growth turned out stronger than we anticipated in the Maritimes, British Columbia and Ontario. Advances in the Maritime Provinces were broad-based, with notable gains in agriculture and construction. A material rebound in the healthcare industry, and surging activity in the real estate and professional

### Soaring commodities to benefit Western producers

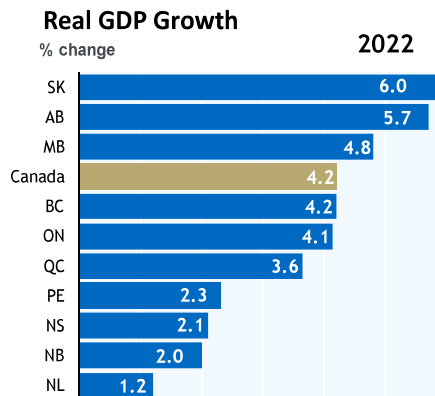
Monthly Bank of Canada commodity price index, Jan. 1972=100



Source: Bank of Canada, RBC Economics



Source: Statistics Canada, RBC Economics



Source: Statistics Canada, RBC Economics



Source: Statistics Canada, RBC Economics

services industries provided big lifts in Ontario and British Columbia.

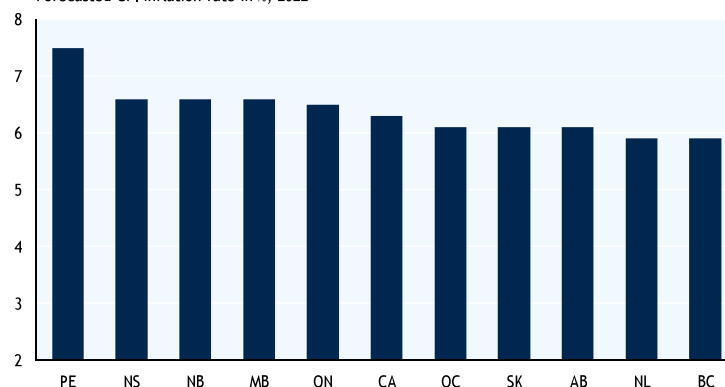
Perhaps more importantly, severe drought conditions delivered a bigger blow to the agricultural sector in the Prairie Provinces than we expected. Saskatchewan was hit the hardest with its economy contracting slightly last year. Manitoba’s growth (1.2%) was a fraction of our previous forecast (4.5%). Both stand to bounce back significantly if weather conditions return closer to normal this year.

## Inflation a big deal across Canada

Inflation concerns remain front and centre from coast to coast, with the most intense pressures being felt in the Maritimes, Manitoba, and Ontario. Higher energy costs weigh heavily on residents in the Maritimes, where soaring fuel prices have a disproportionate impact on home heating costs. And escalating home prices are propping up owned accommodation costs the most in Manitoba and Ontario. Inflation is comparatively lower in Western Canada and Newfoundland—though still at its highest level since inflation targeting began—in part due to more moderate increases in rented and owned accommodation. We expect the rate of inflation to gradually subside across Canada later this year as energy prices stabilize, higher interest rates temper consumer demand and a cooling housing market ease pressure on shelter costs.

### Maritimers face higher inflation

Forecasted CPI inflation rate in %, 2022



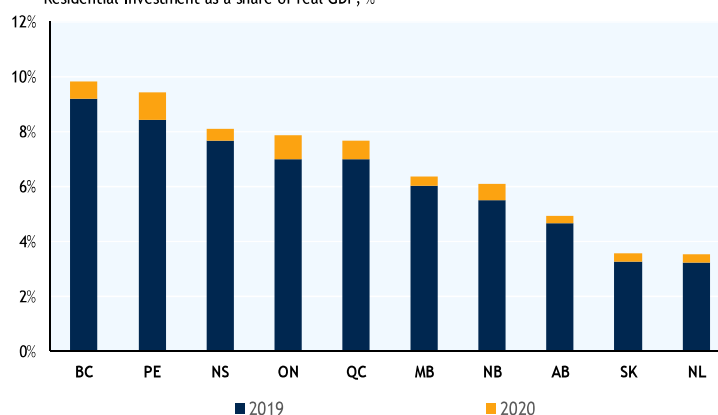
Source: Statistics Canada, RBC Economics

## Housing becoming less of a catalyst in many parts of Canada

Early signs of cooling in the housing market have emerged this spring in parts of Ontario, British Columbia and Quebec. We expect rising interest rates will further moderate home resale activity in the period ahead and broaden the cooling effect to other regions. Rapidly deteriorating affordability—especially in Canada’s most expensive markets—will make it increasingly difficult to sustain recent property values. In fact, we believe home prices have already reached a tipping point in several markets in Ontario and British Columbia. Slower activity will tamp down the substantial contribution the housing sector made to economic growth during the pandemic. We expect this to be a bigger factor in Nova Scotia, New Brunswick, Ontario and British Columbia, where home resales are coming off extremely high levels in 2021. Continued solid housing construction will provide some offset. We project housing starts to rise in Atlantic Canada and the Prairies, and stay historically strong elsewhere despite moderating from pandemic highs.

### Housing represents a larger share of provincial economies

Residential Investment as a share of real GDP, %



Source: Canadian Real Estate Association, RBC Economics

## Labour markets are extremely tight practically everywhere

Tight labour markets continue to pose huge challenges to businesses and an obstacle to the full recovery of some industries including hospitality and tourism, where job vacancy rates remain at record highs. Provincial partnerships with the federal government for

\$10/day daycare alongside higher immigration targets will be part of the solution though they're unlikely to fully address the situation in the short term. Post-pandemic immigration is already ramping up, especially in Canada's coastal regions. In BC, immigration has more than doubled in 2022 relative to pre-pandemic levels and in Atlantic Canada, Ottawa's immigration targets could help boost the size of the population by 4% within the next three years.

## **Booming commodities bode well for Western Canada**

Strong global demand and prices for commodities are significantly boosting Western Canada's prospects. In the agricultural sector, crop receipts are already riding high (thanks to high output prices) despite depressed yields last year. The outlook for this year is positive with total seeded area for major crops in line with historical average in the Prairies. If the weather cooperates, Saskatchewan stands to report a huge rebound in agricultural production this year, coming off of an exceptionally low level in 2021. We expect stronger agricultural production will also driving up overall economic growth in Manitoba and Alberta.

The massive upswing in global energy markets is further benefiting Alberta's economy. While crude production to date in the province is largely in-line with year-ago levels, the value of energy exports is up 50% due to higher prices. The corresponding rise in income will fuel investment as well as spending more broadly in the province. After experiencing tremendous hardship since 2015 (including two oil market crashes and deep recessions), the stars are finally aligning for Alberta's economy to sustain a solid expansion.

In British Columbia, capital investment in the natural resource sector (including the construction of a major LNG project) will continue to play a key part of the province's growth story.

## **Growth to moderate in Central Canada**

We project growth to slow this year in Central Canada—yet remain well-above the average pre-pandemic rate—in part reflecting cooling housing markets. We expect residential activity to decline in both Ontario and Quebec after reaching record (and unsustainable) levels in 2021. High inflation and rising interest rates will prove increasingly challenging for consumers and businesses. As a net energy consuming region, Central Canada will be impacted negatively by steep oil and gas prices. Beyond inflation, manufacturers also face many labour and supply chain hurdles. We don't expect such issues to dissipate quickly, holding back manufacturing production in the near term.

## **Maritimes onto the next stage of the recovery while Newfoundland lags behind**

We have revised our growth forecasts lower in Atlantic Canada in 2022. For the Maritime Provinces, this is reflective of the robust recovery in 2021, which leaves less ground to make up for going forward. We project growth in the region to come in below the national average. In Newfoundland and Labrador, falling crude oil production and capital investment will continue to weigh heavily on the provincial economy, keeping growth weak and the recovery incomplete. Offshore oil production has fallen at every major oilfield, with Terra Nova expected to stay offline until the fall. The resumption of tourism this summer is expected to continue to support hospitality spending. Atlantic Canada continues to benefit from surging interprovincial and international migration. We see this flow of new migrants as a sign of renewed economic vigour.

**Forecast details**

% change unless otherwise indicated

	Real GDP				Nominal GDP				Employment				Unemployment rate, %				Housing starts, (000s)				Retail sales				CPI			
	20	21F	22F	23F	20	21F	22F	23F	20	21	22F	23F	20	21	22F	23F	20	21	22F	23F	20	21	22F	23F	20	21	22F	23F
N.& L.	-5.4	1.2	1.2	2.6	-10.7	18.4	11.3	-0.5	-5.7	2.8	3.3	1.0	14.1	12.9	12.2	12.3	0.8	1.0	1.4	0.7	1.8	11.0	6.8	2.8	0.2	3.7	5.9	2.8
P.E.I.	-1.7	6.5	2.3	1.7	0.9	12.9	6.4	3.7	-3.2	3.6	6.0	1.5	10.4	9.2	8.5	8.9	1.2	1.3	1.3	1.3	1.1	19.0	5.0	4.8	0.0	5.1	7.5	2.9
N.S.	-2.5	5.8	2.1	1.6	0.7	10.5	6.4	2.5	-4.7	5.4	3.5	1.3	9.8	8.4	6.4	6.8	4.8	6.0	6.7	5.8	-2.0	16.3	5.9	4.3	0.3	4.1	6.6	2.9
N.B.	-3.2	5.3	2.0	1.5	-1.3	10.6	6.3	3.6	-2.6	2.5	2.4	1.6	10.0	9.0	7.6	7.8	3.5	3.8	4.5	3.9	1.1	12.6	5.9	4.0	0.2	3.8	6.6	2.9
QUE.	-5.5	5.7	3.6	1.8	-2.4	12.4	7.8	3.8	-4.8	4.1	2.7	1.1	8.9	6.1	4.6	5.6	53.4	67.8	61.4	50.5	0.4	14.4	7.2	3.8	0.8	3.8	6.1	2.7
ONT.	-5.1	4.6	4.1	1.9	-2.8	11.9	8.3	3.9	-4.8	4.9	4.7	1.2	9.6	8.0	5.7	5.8	80.8	99.6	91.9	91.0	-3.5	9.3	8.6	4.1	0.6	3.5	6.5	2.6
MAN.	-4.6	1.2	4.8	2.9	-1.4	7.9	8.7	4.8	-3.7	3.5	2.7	1.2	8.0	6.4	4.8	5.1	7.3	8.0	8.1	7.8	-0.3	13.3	7.1	4.0	0.5	3.2	6.6	2.8
SASK.	-4.9	-0.3	6.0	3.0	-6.6	8.7	21.9	0.9	-4.7	2.6	3.9	1.2	8.4	6.5	5.2	5.2	3.1	4.2	4.2	4.1	0.3	14.6	6.5	4.2	0.6	2.6	6.1	3.1
ALTA.	-7.9	5.1	5.7	3.2	-16.1	19.8	20.5	3.7	-6.6	5.1	4.4	1.7	11.4	8.7	6.0	5.7	24.0	31.9	36.8	35.0	-2.1	11.5	6.5	5.9	1.1	3.2	6.1	2.5
B.C.	-3.4	5.9	4.2	2.0	-0.5	14.2	9.9	4.0	-6.6	6.6	3.0	1.1	8.9	6.5	5.3	5.5	37.9	47.6	38.4	36.0	1.2	12.6	4.2	4.9	0.8	2.8	5.9	2.4
<b>CANADA</b>	<b>-5.2</b>	<b>4.5</b>	<b>4.2</b>	<b>1.9</b>	<b>-4.5</b>	<b>13.0</b>	<b>10.8</b>	<b>3.9</b>	<b>-5.2</b>	<b>4.8</b>	<b>3.8</b>	<b>1.2</b>	<b>9.5</b>	<b>7.5</b>	<b>5.5</b>	<b>5.9</b>	<b>217</b>	<b>271</b>	<b>255</b>	<b>236</b>	<b>-1.3</b>	<b>11.8</b>	<b>7.1</b>	<b>4.4</b>	<b>0.7</b>	<b>3.4</b>	<b>6.3</b>	<b>2.7</b>

**Key provincial comparisons**

(2020 unless otherwise stated)

	Canada	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Population (000s, 2021)	38,246	521	164	982	789	8,604	14,826	1,384	1,180	4,443	5,215
Gross domestic product (\$ billions)	2,206.8	31.6	7.5	46.8	37.6	449.1	866.9	72.8	77.8	294.8	309.3
Real GDP (\$2012 billions)	1,999.4	32.3	6.5	40.7	32.8	385.6	762.2	65.1	82.6	319.7	265.8
Share of provincial GDP of Canadian GDP (%)	100.0	1.4	0.3	2.1	1.7	20.3	39.3	3.3	3.5	13.4	14.0
Real GDP growth (CAGR, 2015-20, %)	0.6	-0.4	2.3	1.1	0.5	0.9	1.0	0.5	-0.4	-1.1	1.9
Real GDP per capita (\$ 2012)	52,564	62,001	40,024	41,412	41,844	44,951	51,687	47,179	70,001	72,331	51,518
Real GDP growth rate per capita (CAGR, 2015-20, %)	-0.6	-0.1	0.1	0.2	-0.1	-0.1	-0.5	-0.9	-1.4	-2.3	0.4
Personal disposable income per capita (\$)	36,745	34,554	32,412	33,163	32,589	33,093	37,420	32,706	36,019	40,344	40,423
Employment growth (CAGR, 2016-21, %)	1.0	-1.0	2.2	1.1	0.4	1.0	1.3	0.7	0.0	0.4	1.6
Employment rate (Apr 2022, %)	61.9	51.1	61.2	57.7	56.3	61.4	62.0	62.9	64.4	65.1	62.0
Discomfort index (inflation + unemp. rate, Apr 2022)	12.0	17.4	17.0	13.1	14.6	10.7	12.3	12.5	11.4	12.2	12.1
Manufacturing industry output (% of GDP)	9.5	3.4	11.0	7.1	9.6	12.6	10.4	9.4	5.4	7.8	6.4
Personal expenditures on goods & services (% of GDP)	55.6	54.1	63.1	66.4	64.9	55.1	54.9	56.3	48.8	51.7	61.3
International exports (% of GDP)	29.4	38.6	22.5	15.1	29.8	27.2	32.8	22.4	39.9	31.6	21.3

## Forecast Details

% change unless otherwise specified

### British Columbia

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	2.8	3.8	3.6	3.1	-3.4	5.9	4.2	2.0
Nominal GDP	5.2	7.0	5.4	4.6	-0.5	14.2	9.9	4.0
Employment	3.5	4.1	1.4	3.0	-6.6	6.6	3.0	1.1
Unemployment Rate (%)	6.1	5.2	4.7	4.7	8.9	6.5	5.3	5.5
Retail Sales	7.7	9.3	2.0	0.6	1.2	12.6	4.2	4.9
Housing Starts (Thousands of Units)	41.8	43.7	40.9	44.9	37.9	47.6	38.4	36.0
Consumer Price Index	1.9	2.1	2.7	2.3	0.8	2.8	5.9	2.4

### Alberta

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	-3.5	4.5	2.2	-0.1	-7.9	5.1	5.7	3.2
Nominal GDP	-6.1	9.2	4.2	1.5	-16.1	19.8	20.5	3.7
Employment	-2.3	1.1	1.9	0.7	-6.6	5.1	4.4	1.7
Unemployment Rate (%)	8.2	7.9	6.7	7.0	11.4	8.7	6.0	5.7
Retail Sales	-1.1	7.2	2.0	-0.5	-2.1	11.5	6.5	5.9
Housing Starts (Thousands of Units)	24.5	29.5	26.1	27.3	24.0	31.9	36.8	35.0
Consumer Price Index	1.1	1.5	2.5	1.7	1.1	3.2	6.1	2.5

### Saskatchewan

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	-0.1	2.6	1.8	-1.1	-4.9	-0.3	6.0	3.0
Nominal GDP	-5.0	6.0	4.3	-0.4	-6.6	8.7	21.9	0.9
Employment	-0.9	0.0	0.5	1.9	-4.7	2.6	3.9	1.2
Unemployment Rate (%)	6.4	6.4	6.2	5.6	8.4	6.5	5.2	5.2
Retail Sales	1.5	4.4	0.1	1.1	0.3	14.6	6.5	4.2
Housing Starts (Thousands of Units)	4.8	4.9	3.6	2.4	3.1	4.2	4.2	4.1
Consumer Price Index	1.1	1.7	2.3	1.7	0.6	2.6	6.1	3.1

### Manitoba

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	1.4	3.3	2.0	0.4	-4.6	1.2	4.8	2.9
Nominal GDP	2.1	5.9	2.9	0.7	-1.4	7.9	8.7	4.8
Employment	-0.3	1.7	1.1	1.0	-3.7	3.5	2.7	1.2
Unemployment Rate (%)	6.2	5.4	6.0	5.3	8.0	6.4	4.8	5.1
Retail Sales	3.7	7.7	2.0	0.6	-0.3	13.3	7.1	4.0
Housing Starts (Thousands of Units)	5.3	7.5	7.4	6.9	7.3	8.0	8.1	7.8
Consumer Price Index	1.3	1.6	2.5	2.3	0.5	3.2	6.6	2.8

### Ontario

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	2.1	2.8	3.4	2.0	-5.1	4.6	4.1	1.9
Nominal GDP	4.0	4.3	4.3	3.7	-2.8	11.9	8.3	3.9
Employment	1.1	1.9	1.7	2.8	-4.8	4.9	4.7	1.2
Unemployment Rate (%)	6.6	6.0	5.7	5.6	9.6	8.0	5.7	5.8
Retail Sales	6.9	7.7	4.6	2.5	-3.5	9.3	8.6	4.1
Housing Starts (Thousands of Units)	75.0	79.1	78.7	69.0	80.8	99.6	91.9	91.0
Consumer Price Index	1.8	1.7	2.4	1.9	0.6	3.5	6.5	2.6

## Forecast Details

% change unless otherwise specified

### Quebec

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	1.6	2.9	2.9	2.8	-5.5	5.7	3.6	1.8
Nominal GDP	3.0	4.9	5.0	4.7	-2.4	12.4	7.8	3.8
Employment	0.5	2.5	1.5	2.0	-4.8	4.1	2.7	1.1
Unemployment Rate (%)	7.2	6.1	5.5	5.1	8.9	6.1	4.6	5.6
Retail Sales	6.6	5.6	3.9	1.3	0.4	14.4	7.2	3.8
Housing Starts (Thousands of Units)	38.9	46.5	46.9	48.0	53.4	67.8	61.4	50.5
Consumer Price Index	0.7	1.1	1.7	2.1	0.8	3.8	6.1	2.7

### New Brunswick

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	0.8	2.5	1.2	1.3	-3.2	5.3	2.0	1.5
Nominal GDP	2.6	4.4	3.7	2.4	-1.3	10.6	6.3	3.6
Employment	0.1	0.7	0.6	0.8	-2.6	2.5	2.4	1.6
Unemployment Rate (%)	9.7	8.2	8.0	8.1	10.0	9.0	7.6	7.8
Retail Sales	2.1	6.8	1.7	2.1	1.1	12.6	5.9	4.0
Housing Starts (Thousands of Units)	1.8	2.3	2.3	2.9	3.5	3.8	4.5	3.9
Consumer Price Index	2.2	2.3	2.2	1.7	0.2	3.8	6.6	2.9

### Nova Scotia

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	1.6	1.8	1.9	3.0	-2.5	5.8	2.1	1.6
Nominal GDP	2.2	4.1	3.6	3.7	0.7	10.5	6.4	2.5
Employment	0.0	0.7	1.9	2.3	-4.7	5.4	3.5	1.3
Unemployment Rate (%)	8.4	8.6	7.7	7.4	9.8	8.4	6.4	6.8
Retail Sales	4.7	7.8	0.2	2.6	-2.0	16.3	5.9	4.3
Housing Starts (Thousands of Units)	3.8	4.0	4.8	4.7	4.8	6.0	6.7	5.8
Consumer Price Index	1.2	1.1	2.2	1.6	0.3	4.1	6.6	2.9

### Prince Edward Island

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	2.1	4.7	1.7	4.7	-1.7	6.5	2.3	1.7
Nominal GDP	4.7	6.5	2.8	6.6	0.9	12.9	6.4	3.7
Employment	-1.5	3.5	4.2	3.3	-3.2	3.6	6.0	1.5
Unemployment Rate (%)	10.9	9.9	9.5	8.7	10.4	9.2	8.5	8.9
Retail Sales	7.3	6.3	2.6	3.9	1.1	19.0	5.0	4.8
Housing Starts (Thousands of Units)	0.6	0.9	1.1	1.5	1.2	1.3	1.3	1.3
Consumer Price Index	1.2	1.8	2.3	1.2	0.0	5.1	7.5	2.9

### Newfoundland and Labrador

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	1.5	1.5	-2.6	3.3	-5.4	1.2	1.2	2.6
Nominal GDP	1.1	6.9	2.7	2.3	-10.7	18.4	11.3	-0.5
Employment	-2.1	-2.1	0.6	1.1	-5.7	2.8	3.3	1.0
Unemployment Rate (%)	14.0	15.1	14.1	12.3	14.1	12.9	12.2	12.3
Retail Sales	0.4	2.4	-2.3	0.0	1.8	11.0	6.8	2.8
Housing Starts (Thousands of Units)	1.4	1.4	1.1	0.9	0.8	1.0	1.4	0.7
Consumer Price Index	2.7	2.4	1.7	1.0	0.2	3.7	5.9	2.8

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