PROVINCIAL OUTLOOK

December 12, 2018

More room to grow for all provincial economies in 2019

- **Expansion to continue from coast to coast:** All provincial economies are projected to grow in 2019.
- **Signs of moderation will be apparent:** Higher interest rates will temper consumers' fervor across Canada but more so in Ontario and BC where household debt is higher.
- **LNG mega project to propel British Columbia to the top of growth rankings in 2019:** The start of construction will be a big boost to BC's economy.
- **Alberta's energy sector facing tough challenges:** Pipeline bottlenecks and heavily discounted local oil prices dim Alberta's near-term growth prospects.

2019 will be a second-straight year of transition to more sustainable rates of growth in most provincial economies. The process began in 2018 when interest rate-sensitive sectors like housing moderated in British Columbia and Ontario. Alberta and Saskatchewan also reached a more mature stage of recovery from their 2015-2016 recessions after an initial burst of activity in 2017. Our view is that the rise in interest rates to date, as well as further expected hikes will pinch consumers to varying degrees across regions of the country in 2019.

British Columbia, Ontario and Quebec now have little spare capacity left that can be tapped quickly to boost output. Increasing labour shortages in these and other provinces will constrain firms' ability to pursue growth opportunities.

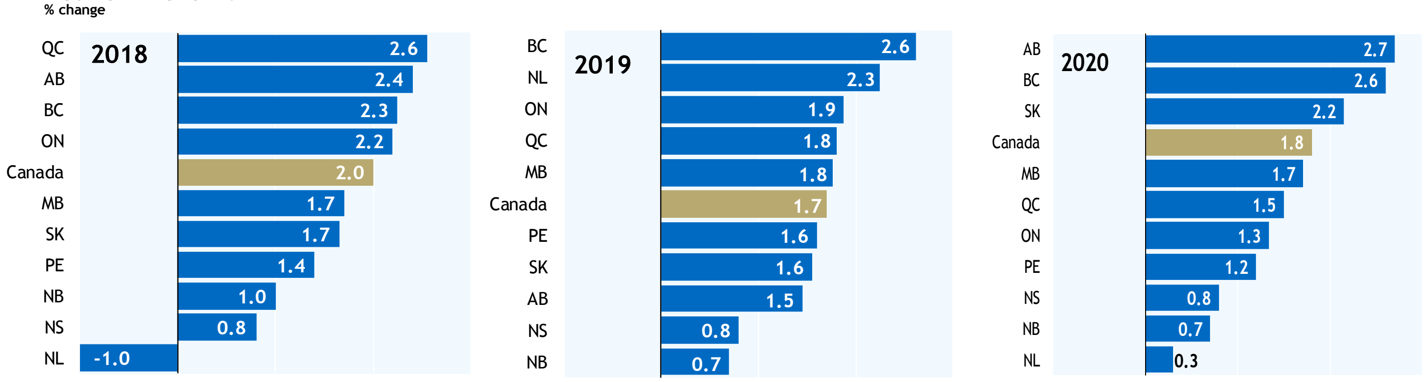
We expect businesses to address these labour issues by investing more in machinery and equipment. The lifting of some of the trade uncertainty following the USMCA deal reached in September will help motivate firms. The deal is generally positive for Canadian exports, though the manufacturing sector in Ontario, Quebec and Manitoba is poised to benefit most despite remaining trade irritants. Ongoing tariffs on aluminum, steel and softwood lumber will continue to have negative regional implications.

Capital investment in British Columbia will receive a tremendous boost from a $40-billion liquid natural gas (LNG) project that will start construction in 2019. We expect work on this project to propel British Columbia to the top of our provincial rankings with a rate of 2.6%. Newfoundland and Labrador is another province where major capital projects will stimulate growth next year.

Things will be more complicated in Alberta, however. While we still expect the provincial economy to grow, market access issues in the energy sector and low commodity prices will slow the pace down. These factors will hold capital spending back in the province. There will also be negative repercussions for Saskatchewan as well albeit not quite as intense. Issues in the mining sector will be an added challenge facing Saskatchewan's economy next year.

Real GDP Growth

% change



Source: Statistics Canada, RBC Economic Research

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BRITISH COLUMBIA – LNG will bring B.C. back to the top

The "G" in LNG spells growth for a province grappling with a softer housing sector and tight labour markets. Construction on LNG Canada's Kitimat project will boost growth to 2.6% in 2019.

Just when we thought B.C.'s boom had run its course, Canada's largest capital project ever came along to keep things rolling. LNG Canada's $40 billion liquefied natural gas export project in Kitimat got the green light in 2018 and will provide a significant boost to the provincial economy: enough to push up our forecast for growth in 2019 to 2.6% from our previous view of 1.9%. That higher pace should continue in 2020. Exports and business investment will take over from the previously overheated residential investment sector as growth drivers.

LNG Canada's facility will mark the fastest route to Asia for natural gas from North America. While its full economic impact can't yet be determined, construction of the export terminal and associated pipeline will generate an estimated 10,000 jobs. LNG Canada also indicated that it will spend $18 billion in Canada in the first five-year phase, mostly in B.C. The activity will provide a shot in the arm to the provincial economy, although it could further strain a tight labour market.

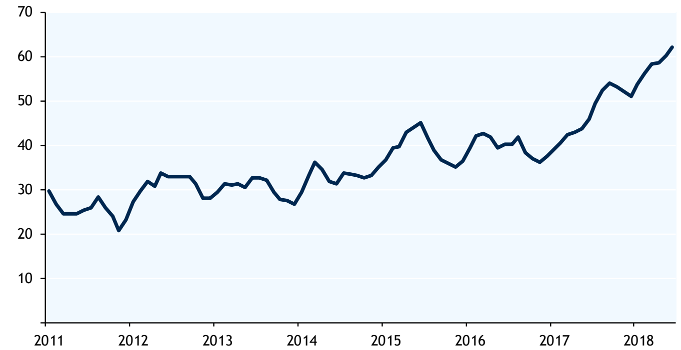
Lack of labour supply has been a constraint for most employers in the province, and this will continue in 2019. With record low unemployment levels, there isn't much local labour left to tap into. The shortages could put upward pressure on wages (average weekly earnings are already up over 4% compared to last year), and businesses will look to international and interprovincial immigration to fill the gap.

Housing was a significant drag on the economy in 2018. While the sector was a key driver of the vigorous growth the province saw in the last few years, its contribution has and will continue to diminish. The lack of affordability and unsustainable pace of growth was reined in by stricter mortgage qualification rules, higher interest rates, and market-cooling measures put forth by provincial and municipal governments. Going into 2019, we see the housing sector remaining soft.

The outlook for B.C. exports is bright. They increased 7.4% in the first ten months of 2018. The USCMA will ease export-related uncertainty around investment planning. Manufacturing sales are also up 7.3% year to date, which is slightly higher than the same period last year.

British Columbia: Job vacancies

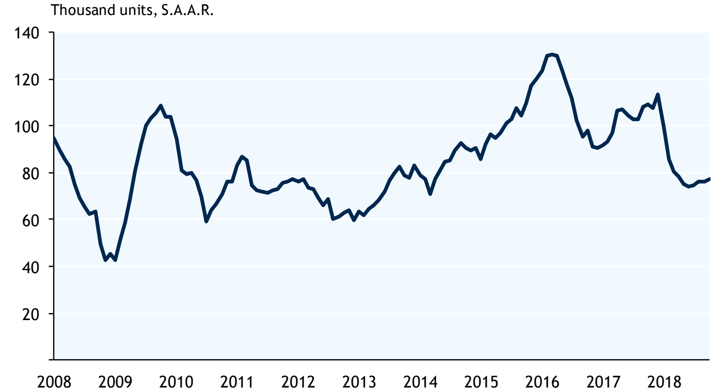
Thousands, 3-month moving average, industrial aggregate



Source: Statistics Canada, RBC Economics Research

British Columbia: Home resales

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

British Columbia forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	3.2	3.8	2.3	2.6	2.6
Nominal GDP	6.0	6.9	4.3	4.7	4.9
Employment	3.2	3.7	1.0	1.4	1.0
Unemployment Rate (%)	6.0	5.1	4.7	4.7	4.7
Retail Sales	7.7	9.3	2.7	4.0	4.0
Housing Starts (Thousands of Units)	41.8	43.7	39.7	38.0	34.0
Consumer Price Index	1.9	2.1	2.7	2.0	2.3

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ALBERTA - Energy market access issues deliver a setback

Pipeline bottlenecks and soft prices add to oil and gas woes. Those woes will cause growth to decline to 1.5% in 2019 from 2.4% this year. But there is light at the end of the tunnel. An expansion in pipeline capacity bodes well for growth in 2020, with the economy bouncing back to 2.7%.

Calgary's recent decision to take a pass on the 2026 Olympic Winter Games summed up Alberta's economic mood. The final months of 2018 cast a pall on what was otherwise a year of moderate growth for the province. Growing output and transportation bottlenecks combined to push down prices for Alberta heavy crude, leading the government to order a production cut of 8.7% starting in January 2019 to clear out high inventories. The curtailment will have negative implications for 2019. We expect the pace of growth to slow to 1.5% in 2019 from 2.4% in 2018.

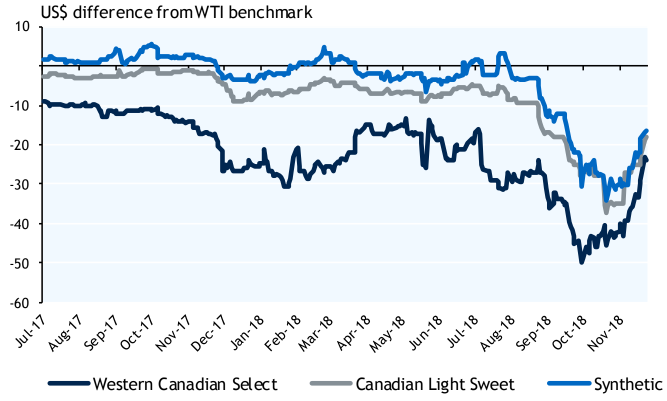
Recovery from 2014's oil-price rout hasn't been a smooth process for Alberta. The differential between the Western Canadian Select and West Texas Intermediate oil benchmarks hit record highs in the latter part of 2018 – with WCS selling for US$50 less a barrel at one point. While this was a result of several U.S. refineries shutting down temporarily for maintenance (which have since come back online), pipeline constraints continue. Rising oil production combined with transportation limitations have resulted in a buildup of inventories. Once Enbridge's Line 3 replacement is fully operational in Q1 2020, we expect these issues to diminish, and growth to re-accelerate to 2.7% that year. Until then, growth prospects aren't as bright as they used to be for the sector and the provincial economy. The oil production cut could lower GDP growth in Alberta by as much as a percentage point relative to prior assumptions. However, the impact will depend on how prices and inventories respond to the cuts.

Alberta's labour market continued to improve in 2018. Although unemployment showed some increase in the most recent data, it stands at 6.7% year to date, down more than a percentage point year-on-year. The employment rate continues to be the highest among the provinces (although it's not back to pre-recessionary highs) and average weekly earnings are up 2.6% from a year ago. Net immigration almost doubled compared to 2017, owing mostly to international migration. And after more than two years of negative net interprovincial immigration, other Canadians are finally moving to Alberta again on a net basis.

Widening oil-price differentials haven't taken a big bite out of provincial government revenues yet due to conservative expectations. But budget pressures stemming from lower oil and gas revenues have intensified, explaining why the government has taken the unusual step of curtailing production to rebalance the market and of buying railcars to address bottleneck concerns.

Western Canadian Oil Prices

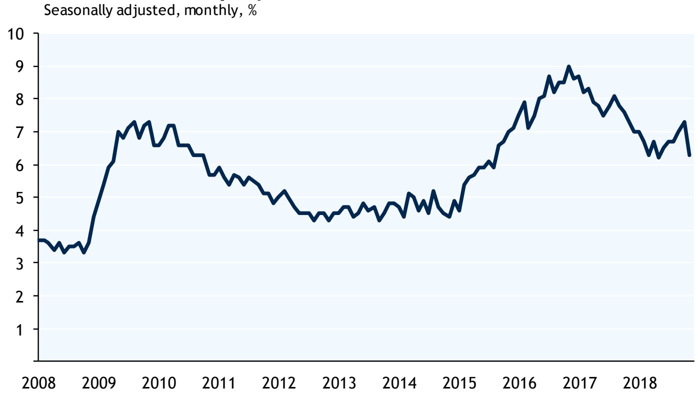
US$ difference from WTI benchmark



Source: Bloomberg, RBC Economics Research

Alberta: Unemployment rate

Seasonally adjusted, monthly, %



Source: Statistics Canada, RBC Economics Research

Alberta forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	-4.2	4.4	2.4	1.5	2.7
Nominal GDP	-6.8	10.0	4.7	2.9	6.6
Employment	-1.6	1.0	1.9	0.9	1.4
Unemployment Rate (%)	8.1	7.8	6.7	7.0	6.7
Retail Sales	-1.1	7.1	2.7	3.7	3.9
Housing Starts (Thousands of Units)	24.5	29.5	26.8	29.0	30.0
Consumer Price Index	1.1	1.5	2.4	1.8	2.3

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SASKATCHEWAN - Bumpy road ahead

The outlook for the Saskatchewan economy turns cloudy with the mining sector under pressure on a number of fronts.

A more pessimistic outlook for mining has prompted a downward revision to growth in 2019 of more than a percentage point to 1.6% following a slightly stronger 1.7% increase in 2018. As these pressures ease further into the forecast, growth is expected to rise to 2.2% in 2020. The extent of the downward revision next year is expected to be limited by some recovery in the agricultural sector though such is dependent on more favourable growing conditions emerging relative to 2018.

The recent weakness in oil price has resulted in a more cautious outlook for the Saskatchewan energy sector. Our forecast does assume some recovery in oil prices going forward though our expectation is that the current bout of weakness will have a greater dampening effect on production and investment than what we had previously assumed. Greater weakness in oil production was already evident in data to date in 2018 which caused us to trim our 2018 GDP growth forecast for the province to 1.7% from 2.2% previously.

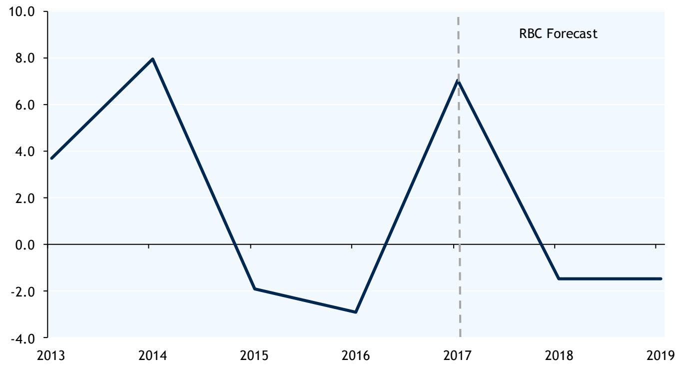
Non-energy mining presents a mixed picture. The outlook for uranium remains bleak with the major uranium producer in the province indefinitely suspending production at its major production facilities. The sector continues to both struggle from the fallout from the Japanese nuclear disaster in 2011 and fail to benefit from the low level of carbon emissions from nuclear power. Some offset to the weak uranium outlook has been provided by potash production that has continued to grow to date in 2018, albeit at a slower pace relative to 2017. Given our expectation that the global economy will continue to expand, demand for potash should remain sufficiently strong to keep potash production expanding albeit at a slowing rate through the forecast.

There had been concerns that dry growing conditions would limit the 2018 grain and oilseed harvest. However, late rains managed to secure a small overall increase in crop volumes. However, those late rains reportedly weighed on the quality of the crop particularly for canola. As a result, farm cash receipts in the province over the first three quarters of this year were down 4.2%. Looking ahead to the upcoming crop years, the assumption is for both 'normal' growing conditions to prevail and continued productivity gains in the sector. This is expected to be reflected in both agricultural production and farm cash receipts rising modestly through the forecast though with this assumption clearly dependent on the weather cooperating.

The modest GDP growth next year is expected to be mirrored in continuing limited employment growth. Data to date in 2018 are indicative of employment growth this year of a minimal 0.3% which is expected to be largely matched in 2019. The projected improvement in GDP growth in 2020 is expected to contribute to employment growth rising to 0.6%. This slight increase in hiring is expected to send the unemployment rate down slightly to 6.0% in 2019 and 2020 from the 6.1% expected this year.

Saskatchewan: Mining sector output

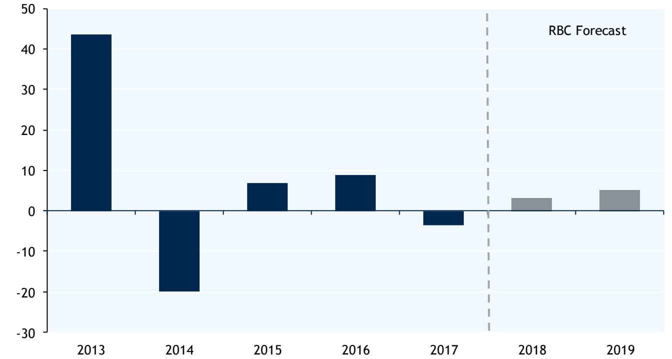
Year-over-year % change, constant $



Source: Statistics Canada, RBC Economics Research

Saskatchewan: Agricultural sector output

Year-over-year % change, constant $



Source: Statistics Canada, RBC Economics Research

Saskatchewan forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	-0.4	2.2	1.7	1.6	2.2
Nominal GDP	-4.8	4.8	4.2	2.9	5.7
Employment	-0.9	-0.2	0.3	0.2	0.6
Unemployment Rate (%)	6.3	6.3	6.1	6.0	6.0
Retail Sales	1.5	4.1	0.9	3.5	3.6
Housing Starts (Thousands of Units)	4.8	4.9	3.8	4.3	5.3
Consumer Price Index	1.1	1.7	2.2	2.1	3.0

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MANITOBA – Maintaining a cruising speed

Manitoba's economy is well positioned to keep cruising along thanks in part to a strong manufacturing sector. Further softening in the mining sector, however, will be a restraining element.

Growth in the Manitoba economy is unlikely to deviate much from what we've seen in 2018 over the next couple of years. We project a rate of 1.8% in 2019 and 1.7% in 2020, which would be little changed from the 1.7% expected in 2018 though down from the impressive 3.2% recorded in 2017. The province is expected to benefit from rising manufacturing activity helped by continued growth in the U.S. economy and attendant demand for Manitoba exports. However, continued expected declines in the mining sector will be a key tempering factor.

The U.S. economy is expected to continue to grow at an above-potential pace in 2019 though at a more moderate pace than in 2018 with the slowing trend continuing into 2020. This is expected to be mirrored in growth in the province's manufacturing sector as it is projected to slow from an expected 4% this year to 3% in 2019 and a negligible gain in 2020. Recent data does indicate some slowing in machinery manufacturing after posting double-digit gains in 2017. Activity in the metal fabricating and food processing sub-sectors on the other hand remained robust through the late stages of 2018.

The outlook for the mining sector isn't as bright because current deposits are depleting and prospects for commodity prices are weak. The declines are largely the result from several mine closures at by both Vale and Hudbay operations in the province though with the pace of layoffs moderating through the forecast.

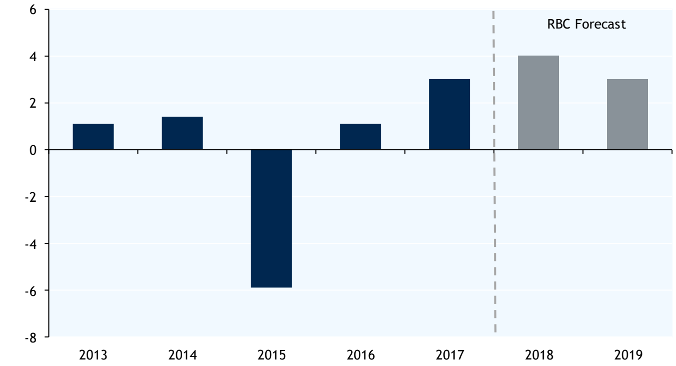
Though spending by Manitoba Hydro is expected to continue on various sizeable capital projects (Keeyask generating station and the Bipole III transmission line), the level of spending is expected to moderate through the forecast with the reduction particularly marked in 2020.

Grain and oilseed production numbers to date for 2018 are indicative of a small decline of 2% reflecting moderately dry conditions this year though this follows a very robust 10% jump in 2017. As well, despite this drop in volumes farm cash receipts over the first three quarters of 2018 managed to rise 1.7% despite an overall decline nationally. Going into a new crop year, the assumption is made that normal growing conditions prevail. On the basis of this assumption, we project average growth in the agricultural sector of 3 ½% in both 2019 and 2020.

In 2018, labour market developments have been consistent with the slowdown in GDP growth. After a hefty gain of 1.7% in 2017, the pace of hiring moderated to 0.6% over the first 11 months of 2018. Employment growth is expected to remain under 1% in both 2019 and 2020. The slowing in hiring along with robust gains in the labour force has recently pushed the unemployment rate higher with this rate expected to average 6.0% this year compared to 5.4% in 2017. This rate is expected to continue to trend moderately higher over the forecast averaging 6.1% in 2019 and

Manitoba: Manufacturing output

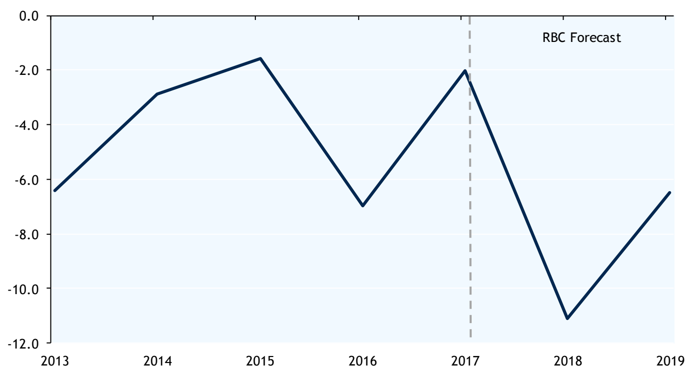
Year-over-year % change



Source: Statistics Canada, RBC Economics Research

Manitoba: Mining sector output

Year-over-year % change, constant $



Source: Statistics Canada, RBC Economics Research

Manitoba forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	1.6	3.2	1.7	1.8	1.7
Nominal GDP	2.3	5.4	3.4	3.8	3.7
Employment	-0.4	1.7	0.6	0.9	0.7
Unemployment Rate (%)	6.1	5.4	6.0	6.1	6.2
Retail Sales	3.7	7.8	1.2	3.9	3.6
Housing Starts (Thousands of Units)	5.3	7.5	7.0	5.4	5.1
Consumer Price Index	1.3	1.6	2.4	1.9	2.6

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ONTARIO – Into the mature stage of the expansion

Economic growth is slowing down in Ontario in large part because the province is running out of spare capacity. It's a nice problem to have in many ways though households, businesses and government will need to adjust. Expect consumers to be more cautious in the face of rising debt service costs.

After four solid years of growth averaging 2.5%, Ontario's economy is now pushing against its capacity limits. The labour market is as tight as it's been in almost three decades and firms find it increasingly harder to fill positions. The next phase of the province's economic expansion will be slower. The transition in fact began in 2018 when key sectors like housing showed clear signs of moderating. Household spending will be next. The Bank of Canada's interest hike campaign is poised to tighten things up for Ontario households who are among the most indebted in Canada. We project GDP growth in the province to ease from 2.2% in 2018 to 1.9% in 2019. The recently-announced closure of the GM plant in Oshawa will have negative implications in 2020 when we forecast growth to slow further to 1.3%.

Despite some volatility, Ontario's housing market generally stayed cool in 2018. The introduction of a mortgage stress test at the start of the year by the federal banking regulator definitely took a toll on activity. The impact on new housing construction hasn't been as immediate—in part because many housing starts were for units sold when the market was hotter—but a weakening trend emerged in recent months. We expect residential investment to decline in 2019 as rising interest rates exacerbate severe affordability issues in the Greater Toronto Area.

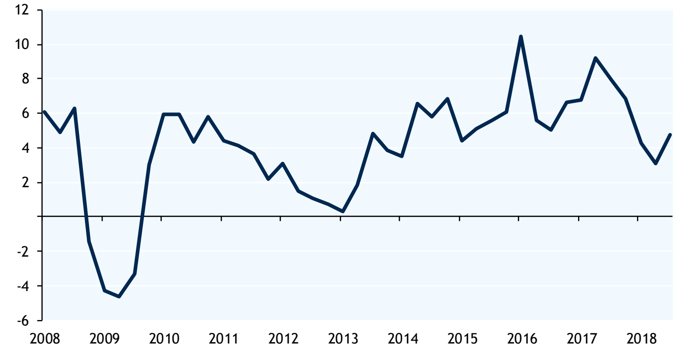
We also expect higher interest rates to cause Ontario households carrying heavy debt loads to tighten their belts. Early evidence of this surfaced in 2018 when growth in household spending moderated—albeit from lofty levels in 2017. Further moderation is in store, especially for credit-supported spending items such as motor vehicles.

We see plenty of upside to non-residential business investment in the province, on the other hand. High levels of capacity utilization and labour issues will compel businesses to boost capital spending to expand operations and become more productive. This process is already underway with spending rising by 11% on both non-residential structures, and machinery and equipment over the first half of 2018. Positive export prospects arising from the continued strength in the US market and the lifting of trade uncertainty following the USMCA deal also are poised to weigh in favourably in firms' decision to invest—as will accelerated capital depreciation allowance recently announced by Ottawa and Queen's Park.

Ontario businesses would do well to implement strategies to cope with labour shortages because we expect the provincial labour market to remain tight in 2019. Our forecast calls for the unemployment rate to eased slightly to a 28-year low of 5.5%.

Ontario: Retail sales

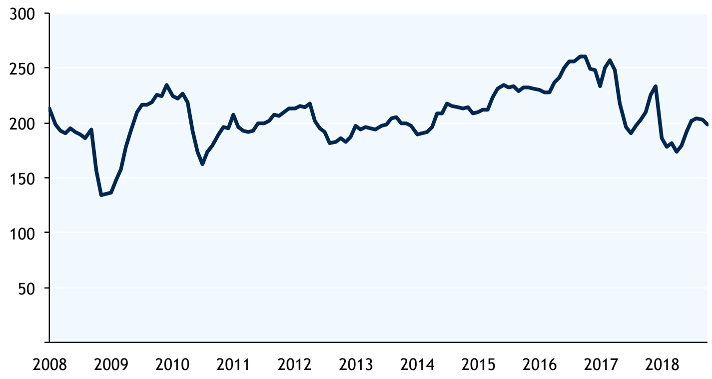
Year-over-year % change, seasonally adjusted, quarterly



Source: Statistics Canada, RBC Economics Research

Ontario: Home resales

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Ontario forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	2.3	2.8	2.2	1.9	1.3
Nominal GDP	4.4	4.1	3.7	3.7	3.2
Employment	1.1	1.8	1.5	1.1	0.8
Unemployment Rate (%)	6.5	6.0	5.6	5.5	5.8
Retail Sales	6.9	7.7	4.1	4.2	3.9
Housing Starts (Thousands of Units)	75.0	79.1	78.4	70.0	71.0
Consumer Price Index	1.8	1.7	2.3	1.9	2.4

Slower economic growth will be a big issue for the provincial government. It will limit the scope of future revenue increases, making the task of tackling the large $14.5 billion budget deficit harder.

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QUEBEC - After the fireworks

Quebec's economic expansion has longer to run though don't expect the fireworks to continue. Higher interest rates, labour shortages and some moderation in housing construction will temper the pace.

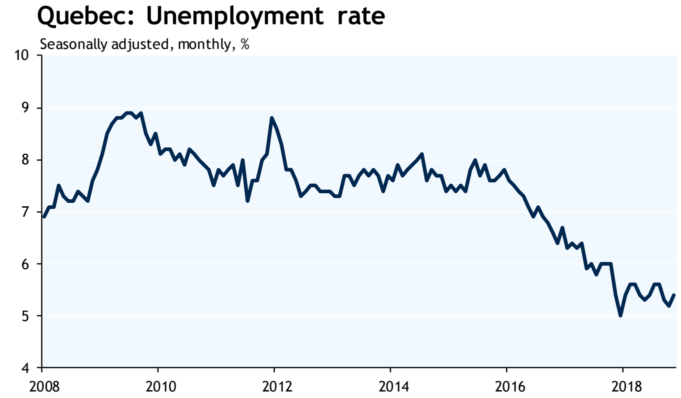
2017 and 2018 no doubt will go down in history as a golden period for Quebec's economy. Many factors came together to produce the strongest back-to-back growth in the province in nearly a generation and the lowest unemployment rate in nearly two generations. We now forecast Quebec to lead all provinces in growth in 2018 with a rate of 2.6%! Who would have predicted that even just a year ago? To those wondering whether these good times can last we answer that the expansion has longer to run in Quebec… though without some of the fireworks. We project GDP to grow by a more modest 1.8% in 2019—yet still strong enough to be above the national average of 1.7%. We also expect conditions to be positive enough to keep the labour force fully employed—good news for workers, not as much for businesses with positions to fill. We project further growth moderation in 2020 to a rate of 1.5% which we believe is closer to what the province can sustain over the longer term.

The Quebec economy continued to carry impressive momentum into the late stages of 2018. GDP growth tracked 3.0% year over year in the first eight months with positive contribution from the vast majority of industrial sectors. Housing still stands out with resale activity reaching new highs in Montreal and home builders showing few signs of slacking off at this stage. A strong labour market fills buyers with confidence and a rise in net migration—reflecting higher international migration and diminishing interprovincial losses—fuels demographic demand for housing. We expect some moderation in 2019 though. Rising interest rates will temper buyers' enthusiasm. And we see home builders shifting their attention to working off their existing pipeline of units under construction—currently standing near 40-year high levels—instead of starting new projects.

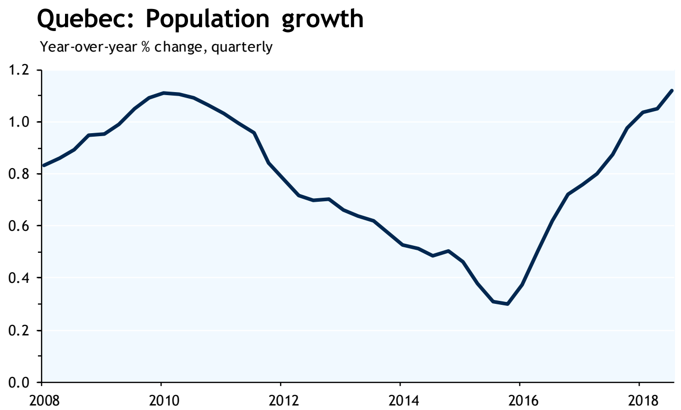
While job creation in the province appeared to stall this spring and summer, it snapped back in October and November with a total of 55,600 full-time jobs being added. This not only confirmed that Quebec's labour market remains on solid foundations, it also signaled that the current tightness is here to stay for a while. We project the provincial unemployment rate to be little changed at 5.5% in 2019, up only marginally from 5.4% in 2018. So firms won't find things any easier to address their payroll needs. In fact, we believe that labour shortage issues will be among the factors restraining growth in Quebec.

Pressure will build on businesses to invest in machinery and equipment in order to get more production out of workers. We saw a promising 13% rise in machinery and equipment spending over the first half of 2018. We expect further increases in 2018.

Rising interest rates will take some of the shine off consumer spending in the province. While Quebec households aren't as exposed as highly indebted Ontario and BC households, higher borrowing costs will nonetheless take some budget room away.



Source: Statistics Canada, RBC Economics Research



Source: Statistics Canada, RBC Economics Research

Quebec forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	1.4	2.8	2.6	1.8	1.5
Nominal GDP	2.8	5.0	4.3	3.6	3.3
Employment	0.9	2.2	0.9	0.7	0.6
Unemployment Rate (%)	7.1	6.1	5.4	5.5	5.8
Retail Sales	6.6	5.5	4.0	4.0	3.7
Housing Starts (Thousands of Units)	38.9	46.5	46.7	40.3	38.0
Consumer Price Index	0.7	1.1	1.6	1.8	2.6

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NEW BRUNSWICK – Slower pace ahead

While the labour market emerged strong in 2018 and workers benefitted from higher wage growth, labour shortages have begun to emerge and will restrict growth over coming years.

New Brunswick's economy enjoyed stronger than expected growth in 2018 with the export sector benefitting from higher commodity prices in the first half of the year as well as robust wage growth. While employment continued to tick higher in 2018, emerging labour shortages will limit growth next year. After growing at 1% in 2018, we anticipate economy growth to slow to 0.7% in both 2019 and 2020.

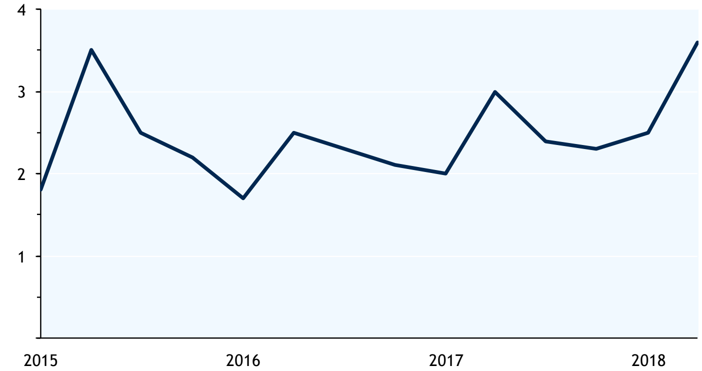
The labour market improved in 2018. Both working age population and employment rose 0.4% in the first 11 months of the year compared to the same period in 2017. The unemployment rate continues on a downward trend close to historic lows. This has translated into better outcomes for workers with average hourly wages increasing by 2.5%. That said, demographic factors remain unfavorable to the provincial economy. Labour shortages are already limiting businesses from expanding with the job vacancy rate reaching 3.6% in the second quarter of 2018 from 3% a year earlier. In fact this issue was front and center in the recent provincial election, with understaffed critical services sectors like nursing getting a lot of attention. While current immigration levels help to partly mitigate these shortage issues in the short term, significantly larger numbers will be required to sustain the economy in the longer run.

Like in most of the Atlantic Provinces, New Brunswick's housing sector has followed an upward trajectory in 2018. Residential investment climbed more than 12% over the first half of the year, led by spending on new dwellings. Real non-residential building construction is also up 18% through the third quarter –almost all the growth came from institutional and governmental building construction work. Residential rental vacancy rates eased to 3.2% due to rising demand in the rental market. We expect housing starts to remain stable in 2019 at 2,100 units.

The second quarter fiscal update from the provincial government showed a lower-than-expected deficit of $131 million for 2018-2019. The new Conservative government has promised to balance the provincial budget by 2020, a year earlier than the previous Liberal government targeted. In order to do so, however, the new government will tighten the provincial purse strings, which at the margin will restrain the public sector's contribution to growth.

New Brunswick: Job vacancy rate

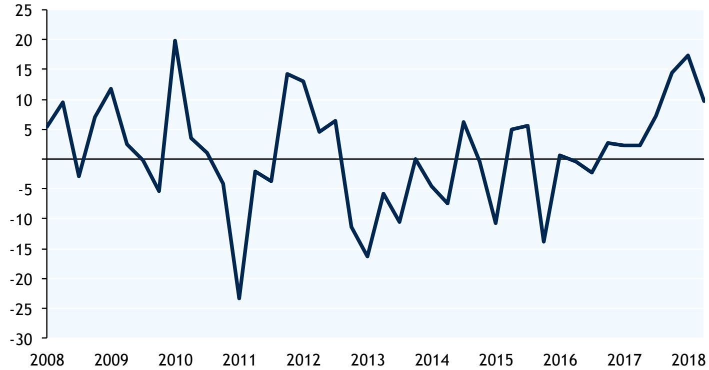
Number of job vacancies expressed as a percentage of labour demand, quarterly



Source: Statistics Canada, RBC Economics Research

New Brunswick: Residential investment

Year-over-year % change, quarterly



Source: Statistics Canada, RBC Economics Research

New Brunswick forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	1.4	1.8	1.0	0.7	0.7
Nominal GDP	3.6	4.3	2.2	2.3	2.4
Employment	-0.1	0.4	0.3	0.2	0.3
Unemployment Rate (%)	9.6	8.1	7.9	7.6	7.3
Retail Sales	2.1	6.8	1.8	3.0	2.9
Housing Starts (Thousands of Units)	1.8	2.3	2.1	2.1	2.3
Consumer Price Index	2.2	2.3	2.1	1.9	2.7

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NOVA SCOTIA – Slow and steady

There were positive developments in the labour market and exports over the past year. Yet we expect growth to remain slow and steady going forward limited by soft capital spending.

We expect Nova Scotia's economy to continue to grow at a steady pace over the next two years. While we peg this pace at a moderate 0.8% in both 2019 and 2020—unchanged from 2018—it will be sufficient to keep the provincial labour market on a positive trajectory. Some softness in business investment will be among the factors restraining growth. We expect housing construction to moderate after a burst of activity in 2018. We see the province's aging population as another restraining factor.

Nova Scotia's labour market impressed in 2018. Employment grew by a solid 1.5% over the first 11 months which we believe will set up the strongest annual gain (1.4%) the province has seen in over a decade. The unemployment rate eased in the first 11 months of the year to 7.7%—the lowest among the Atlantic Provinces. The unemployment rate even fell briefly to its lowest level ever on record (6.7%) in April. Our view is that job creation will moderate but remain positive in 2019. This will keep the provincial unemployment rate on a slight downward path averaging 7.4% next year.

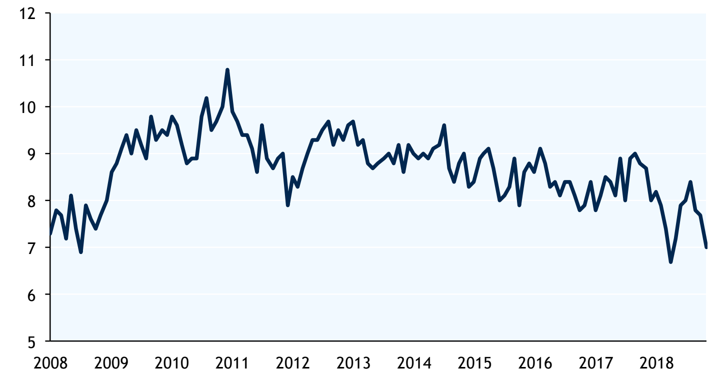
Population growth also was a good news story in 2018. Net international migration increased over 47% over the first half of the year compared to the same period a year ago. Nova Scotia also saw eleven consecutive quarters of positive net interprovincial migration with the second quarter of 2018 seeing the largest increase in over 30 years. We expect migration flows to remain positive in 2019, though perhaps not quite as strong as they were in 2018. This will help alleviate some of the pressure on Nova Scotia's workforce from the aging of the population but not entirely.

Another feather in Nova Scotia's cap came in the way of exports, which continued to grow through the year at a sturdy pace of 8% compared to 2017. The main contribution to this growth came from forestry exports (39%). Seafood exports in particular have a bright outlook in 2019, thanks to a new cargo handling facility that will begin construction in 2019 at the Halifax airport. The project is meant to ease freight bottlenecks and will cost $36 million, partially funded by the federal government.

Work on major projects being completed will see business investment drop off over the coming years. The outlook for the primary sector looks bleak. Both natural gas facilities are currently in the process of being decommissioned. While proposals for two new terminals are under consideration, there is uncertainty in terms of the future of the industry.

Nova Scotia: Unemployment rate

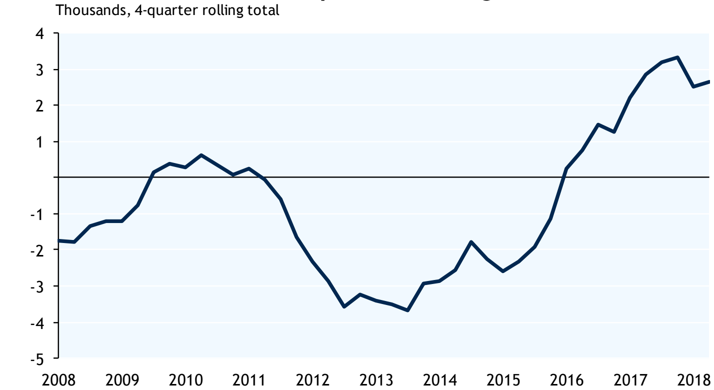
Seasonally adjusted, monthly, %



Source: Statistics Canada, RBC Economics Research

Nova Scotia: Net interprovincial migration

Thousands, 4-quarter rolling total



Source: Statistics Canada, RBC Economics Research

Nova Scotia forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	1.5	1.5	0.8	0.8	0.8
Nominal GDP	2.2	2.9	2.4	2.7	2.7
Employment	-0.4	0.6	1.4	0.4	0.5
Unemployment Rate (%)	8.3	8.4	7.7	7.5	7.2
Retail Sales	4.7	7.8	2.4	3.5	3.4
Housing Starts (Thousands of Units)	3.8	4.0	4.9	3.8	3.6
Consumer Price Index	1.2	1.1	2.1	2.0	2.7

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PRINCE EDWARD ISLAND – Still going strong

Solid population growth and job creation sustain economic momentum in the province

Prince Edward Island is well on its way once again to lead Atlantic Canada in growth in 2018. The economy continues to thrive on rapid population growth, strong job creation and brisk consumer-related activity. While slowing from a supercharged growth of 3.5% in 2017, we forecast the provincial economy to grow by a still-respectable rate of 1.4% in 2018. We project the pace to accelerate slightly to 1.6% in 2019 before moderating to 1.2% in 2020.

Economic conditions may not be as stellar as they were in 2017—when growth reached an 18-year high –signs of vigour still abound. The province led the country in population growth in 2018 for a second year in a row with a rate of 1.8, thanks to a wave of immigration over the past couple of years. Employment growth is tracking 3.2% year to date, beating every other province. The unemployment rate in PEI fell to its lowest level on record in October (7.2%). Signs of labour shortage have even begun to emerge. The strength in the labour market (as well as in wages) contributed to the highest growth in retail sales among the provinces.

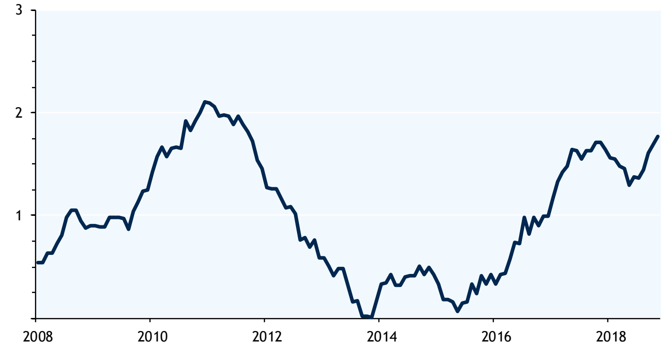
The housing market is feeling the pressure from buoyant demographic demand. The rental vacancy rate dropped sharply to 0.3% in the fall of 2018, from 1.2% in 2017 – the lowest rate across the country. This is clearly calling for a supply response. And indeed investment in new housing construction surged by nearly 38% over the first eight months of 2018, led by apartment construction. However, non-residential investment has declined 5.3% compared to 2017 driven lower by the institutional and government sector.

Where the picture is not quite as rosy is on the external side of the provincial economy. There has been some softening in the export sector, particularly in the food product industries. Bad weather undermined potato yields in the province during the 2018 crop year, raising some concerns for food processors.

The second quarter fiscal update from the provincial government showed an upward revision to the budget surplus expected in 2018-2019. The government attributed the revision to robust economic growth. The government also indicated that it will pay down the province’s net debt for the first time in over a decade.

Prince Edward Island: Population growth

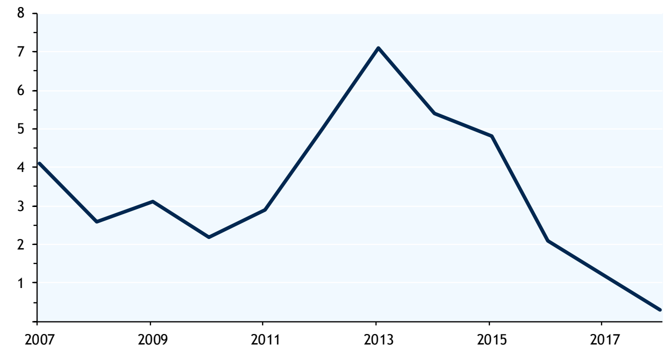
Year-over-year % change, seasonally adjusted, quarterly



Source: Statistics Canada, RBC Economics Research

Prince Edward Island: Rental vacancy rate

Annual, %



Source: CMHC, RBC Economics Research

Prince Edward Island forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	1.8	3.5	1.4	1.6	1.2
Nominal GDP	4.5	4.8	3.1	3.7	3.1
Employment	-2.2	3.1	3.1	1.1	1.1
Unemployment Rate (%)	10.8	9.8	9.4	9.0	8.6
Retail Sales	7.3	6.3	4.1	3.8	3.7
Housing Starts (Thousands of Units)	0.6	0.9	0.8	0.6	0.8
Consumer Price Index	1.2	1.8	2.4	2.1	2.7

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NEWFOUNDLAND & LABRADOR - Swinging from contraction to growth

Only province to see contraction in 2018 from drop in capital investment; outlook brighter for 2019 as two big projects provide growth opportunities

Newfoundland and Labrador's growth ranking will swing from being the lowest among the Atlantic Provinces in 2018 to the highest in 2019. The winding down of major capital investment projects coupled with slower mining output weighed heavily on activity in 2018 when we expect the provincial economy to contract. Higher oil production from the Hebron plant as well as the ramp-up of major project investments should bring back positive growth in 2019. We project GDP to decline by 1% in 2018 and grow by 2.3% in 2019. Our first peek at 2020 sees oil production continuing to rise from the Hebron facility though a topping up in capital investment will lead to more subdued growth of 0.3%.

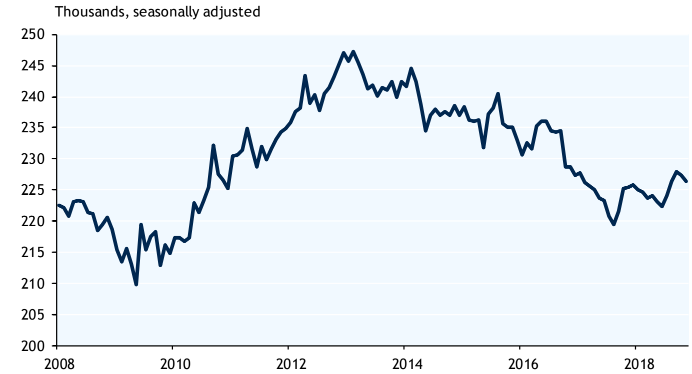
Oil production has been a bright light for Newfoundland in 2018. Increased oil production (6.5%) mainly from the Hebron offshore oil platform more than offset gradual depletion at other deposits, and will continue to do so until reaching full capacity in 2022. Energy exports soared 51% on a nominal basis over the first 10 months of the year. Brent crude prices have been volatile—weakening significantly in October and November—though higher prices in the first half of the year have boosted provincial government revenues.

A key drag on the economy in 2018, however, has been a drop in major capital investment spending. This was mainly a result of the Hebron offshore oil platform being completed in 2017, as well as the Muskrat Falls hydroelectric project winding down. Added to that, a labour dispute at the Iron Ore Company of Canada led to a decline in iron ore production.

The labour market continued to be weak. After four years of net job losses in the province, employment was flat in the first 10 months of the year and the unemployment rate was still in the double-digits despite easing somewhat. This provided little support to the consumer sector, and resulted in lower retail sales (-1.4% year to date). This didn't help the provincial housing market either, which remained soft.

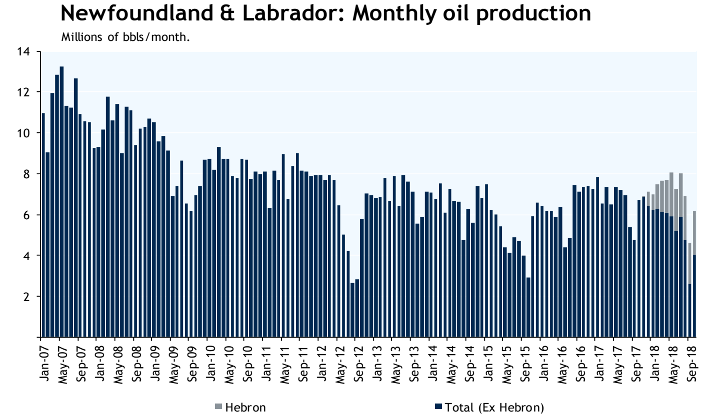
The good news is that two major capital projects will brighten investment prospects in 2019. Work on the Husky White Rose offshore oil platform expansion and Vale's Voisey's Bay nickel mine project will substantially boost capital spending in the province. The Voisey's Bay venture is projected to create 650 direct job opportunities during peak construction and capital investment in the order of $2 billion while the White Rose expansion (already in construction) is estimated to cost $3.2 billion and will create 800 construction jobs.

Newfoundland & Labrador: Total employment



Source: Statistics Canada, RBC Economics Research

Newfoundland & Labrador: Monthly oil production



Source: Canada Newfoundland & Labrador Offshore Petroleum Board, RBC Economics Research

Newfoundland and Labrador forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	1.8	0.9	-1.0	2.3	0.3
Nominal GDP	1.8	4.3	2.8	3.3	2.9
Employment	-1.5	-3.7	0.3	-0.3	-0.2
Unemployment Rate (%)	13.4	14.8	14.0	14.1	13.9
Retail Sales	0.4	2.4	-1.4	1.9	1.7
Housing Starts (Thousands of Units)	1.4	1.4	1.5	1.0	1.4
Consumer Price Index	2.7	2.4	1.7	2.1	2.6

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Forecast details

% change unless otherwise indicated

	Real GDP				Nominal GDP				Employment				Unemployment				Housing starts				Retail sales				CPI			
	17	18F	19F	20F	17	18F	19F	20F	17	18F	19F	20F	17	18F	19F	20F	17	18F	19F	20F	17	18F	19F	20F	17	18F	19F	20F
N.& L.	0.9	-1.0	2.3	0.3	4.3	2.8	3.3	2.9	-3.7	0.3	-0.3	-0.2	14.8	14.0	14.1	13.9	1.4	1.5	1.0	1.4	2.4	-1.4	1.9	1.7	2.4	1.7	2.1	2.6
P.E.I	3.5	1.4	1.6	1.2	4.8	3.1	3.7	3.1	3.1	3.1	1.1	1.1	9.8	9.4	9.0	8.6	0.9	0.8	0.6	0.8	6.3	4.1	3.8	3.7	1.8	2.4	2.1	2.7
N.S.	1.5	0.8	0.8	0.8	2.9	2.4	2.7	2.7	0.6	1.4	0.4	0.5	8.4	7.7	7.5	7.2	4.0	4.9	3.8	3.6	7.8	2.4	3.5	3.4	1.1	2.1	2.0	2.7
N.B.	1.8	1.0	0.7	0.7	4.3	2.2	2.3	2.4	0.4	0.3	0.2	0.3	8.1	7.9	7.6	7.3	2.3	2.1	2.1	2.3	6.8	1.8	3.0	2.9	2.3	2.1	1.9	2.7
QUE.	2.8	2.6	1.8	1.5	5.0	4.3	3.6	3.3	2.2	0.9	0.7	0.6	6.1	5.4	5.5	5.8	46.5	46.7	40.3	38.0	5.5	4.0	4.0	3.7	1.1	1.6	1.8	2.6
ONT.	2.8	2.2	1.9	1.3	4.1	3.7	3.7	3.2	1.8	1.5	1.1	0.8	6.0	5.6	5.5	5.8	79.1	78.4	70.0	71.0	7.7	4.1	4.2	3.9	1.7	2.3	1.9	2.4
MAN.	3.2	1.7	1.8	1.7	5.4	3.4	3.8	3.7	1.7	0.6	0.9	0.7	5.4	6.0	6.1	6.2	7.5	7.0	5.4	5.1	7.8	1.2	3.9	3.6	1.6	2.4	1.9	2.6
SASK.	2.2	1.7	1.6	2.2	4.8	4.2	2.9	5.7	-0.2	0.3	0.2	0.6	6.3	6.1	6.0	6.0	4.9	3.8	4.3	5.3	4.1	0.9	3.5	3.6	1.7	2.2	2.1	3.0
ALTA.	4.4	2.4	1.5	2.7	10.0	4.7	2.9	6.6	1.0	1.9	0.9	1.4	7.8	6.7	7.0	6.7	29.5	26.8	29.0	30.0	7.1	2.7	3.7	3.9	1.5	2.4	1.8	2.3
B.C.	3.8	2.3	2.6	2.6	6.9	4.3	4.7	4.9	3.7	1.0	1.4	1.0	5.1	4.7	4.7	4.7	43.7	39.7	38.0	34.0	9.3	2.7	4.0	4.0	2.1	2.7	2.0	2.3
CANADA	**3.0**	**2.0**	**1.7**	**1.8**	**5.6**	**4.0**	**3.5**	**4.2**	**1.9**	**1.2**	**0.8**	**0.7**	**6.3**	**5.8**	**5.9**	**6.0**	**220**	**212**	**194**	**192**	**7.1**	**3.3**	**3.9**	**3.8**	**1.6**	**2.2**	**1.9**	**2.5**

Key provincial comparisons

(2017 unless otherwise stated)

	Canada	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Population (000s)	**36,708**	529	152	954	760	8,394	14,193	1,338	1,164	4,286	4,817
Gross domestic product ($ billions)	**2,137.5**	33.1	6.7	42.7	36.1	417.2	825.8	71.0	79.5	331.9	282.2
Real GDP ($2007 billions)	**2,010.9**	33.8	6.1	39.5	32.9	383.1	761.3	66.6	85.5	336.8	256.9
Share of provincial GDP of Canadian GDP (%)	**100.0**	1.6	0.3	2.1	1.7	19.6	39.2	3.3	3.7	14.9	13.0
Real GDP growth (CAGR, 2012-17, %)	**2.0**	1.1	1.7	0.8	0.7	1.6	2.3	2.2	1.9	1.5	3.0
Real GDP per capita ($ 2007)	**54,781**	63,937	39,856	41,369	43,330	45,645	53,638	49,769	73,489	78,573	53,325
Real GDP growth rate per capita (CAGR, 2012-17, %)	**0.9**	1.0	0.7	0.7	0.7	0.8	1.1	0.8	0.5	-0.5	1.8
Personal disposable income per capita ($)	**32,152**	31,981	28,720	28,881	29,538	28,455	32,365	29,543	32,601	36,344	35,738
Employment growth (CAGR, 2012-17, %)	**-1.1**	1.4	-0.2	0.4	0.0	-1.1	-1.2	-0.7	-0.7	-1.0	-1.7
Employment rate (Nov. 2018, %)	**61.7**	50.9	60.6	57.1	56.4	61.0	60.8	63.4	65.3	67.6	62.4
Discomfort index (inflation + unemp. rate, Oct. 2018)	**8.2**	14.8	9.7	10.6	10.0	6.9	8.1	8.8	8.6	10.1	7.1
Manufacturing industry output (% of GDP, 2017)	**10.4**	4.6	10.5	7.6	11.0	14.0	12.2	9.7	6.1	8.3	7.1
Personal expenditures on goods & services (% of GDP)	**56.5**	51.3	67.7	71.4	64.8	58.3	57.4	57.2	47.4	46.5	63.7
International exports (% of GDP)	**31.0**	33.8	24.1	17.1	38.9	28.1	34.5	23.8	39.5	32.8	23.8

Forecast Details

% change unless otherwise specified

British Columbia

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	2.5	2.2	3.7	2.1	3.2	3.8	2.3	2.6	2.6
Nominal GDP	2.1	3.4	5.7	2.9	6.0	6.9	4.3	4.7	4.9
Employment	1.6	0.1	0.6	1.2	3.2	3.7	1.0	1.4	1.0
Unemployment Rate (%)	6.8	6.6	6.1	6.2	6.0	5.1	4.7	4.7	4.7
Retail Sales	1.9	2.8	6.3	7.0	7.7	9.3	2.7	4.0	4.0
Housing Starts (Thousands of Units)	27.5	27.1	28.4	31.4	41.8	43.7	39.7	38.0	34.0
Consumer Price Index	1.1	-0.1	1.0	1.1	1.9	2.1	2.7	2.0	2.3

Alberta

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	3.9	5.7	5.9	-3.7	-4.2	4.4	2.4	1.5	2.7
Nominal GDP	4.3	9.6	10.0	-14.0	-6.8	10.0	4.7	2.9	6.6
Employment	3.5	2.5	2.2	1.2	-1.6	1.0	1.9	0.9	1.4
Unemployment Rate (%)	4.6	4.6	4.7	6.0	8.1	7.8	6.7	7.0	6.7
Retail Sales	6.9	7.2	7.9	-4.0	-1.1	7.1	2.7	3.7	3.9
Housing Starts (Thousands of Units)	33.4	36.0	40.6	37.3	24.5	29.5	26.8	29.0	30.0
Consumer Price Index	1.1	1.4	2.6	1.2	1.1	1.5	2.4	1.8	2.3

Saskatchewan

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.7	6.5	2.0	-0.9	-0.4	2.2	1.7	1.6	2.2
Nominal GDP	4.2	6.7	-0.4	-3.9	-4.8	4.8	4.2	2.9	5.7
Employment	2.4	3.1	1.0	0.5	-0.9	-0.2	0.3	0.2	0.6
Unemployment Rate (%)	4.7	4.1	3.8	5.0	6.3	6.3	6.1	6.0	6.0
Retail Sales	7.3	5.2	4.7	-3.3	1.5	4.1	0.9	3.5	3.6
Housing Starts (Thousands of Units)	10.0	8.3	8.3	5.1	4.8	4.9	3.8	4.3	5.3
Consumer Price Index	1.6	1.4	2.4	1.6	1.1	1.7	2.2	2.1	3.0

Manitoba

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	3.0	2.9	2.1	1.2	1.6	3.2	1.7	1.8	1.7
Nominal GDP	6.4	4.2	3.1	2.6	2.3	5.4	3.4	3.8	3.7
Employment	1.6	0.7	0.1	1.6	-0.4	1.7	0.6	0.9	0.7
Unemployment Rate (%)	5.3	5.4	5.4	5.6	6.1	5.4	6.0	6.1	6.2
Retail Sales	1.0	3.8	4.2	1.3	3.7	7.8	1.2	3.9	3.6
Housing Starts (Thousands of Units)	7.2	7.5	6.2	5.5	5.3	7.5	7.0	5.4	5.1
Consumer Price Index	1.6	2.3	1.8	1.2	1.3	1.6	2.4	1.9	2.6

Ontario

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.3	1.4	2.5	2.5	2.3	2.8	2.2	1.9	1.3
Nominal GDP	3.1	2.2	4.4	4.6	4.4	4.1	3.7	3.7	3.2
Employment	0.7	1.8	0.8	0.7	1.1	1.8	1.5	1.1	0.8
Unemployment Rate (%)	7.9	7.6	7.3	6.8	6.5	6.0	5.6	5.5	5.8
Retail Sales	1.6	2.7	5.7	5.3	6.9	7.7	4.1	4.2	3.9
Housing Starts (Thousands of Units)	76.7	61.1	59.1	70.2	75.0	79.1	78.4	70.0	71.0
Consumer Price Index	1.4	1.1	2.3	1.2	1.8	1.7	2.3	1.9	2.4

Forecast Details

% change unless otherwise specified

Quebec

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.0	1.3	1.6	0.9	1.4	2.8	2.6	1.8	1.5
Nominal GDP	2.7	3.0	3.0	2.9	2.8	5.0	4.3	3.6	3.3
Employment	0.8	1.4	0.0	0.9	0.9	2.2	0.9	0.7	0.6
Unemployment Rate (%)	7.7	7.6	7.7	7.6	7.1	6.1	5.4	5.5	5.8
Retail Sales	1.2	3.0	2.6	1.9	6.6	5.5	4.0	4.0	3.7
Housing Starts (Thousands of Units)	47.4	37.8	38.8	37.9	38.9	46.5	46.7	40.3	38.0
Consumer Price Index	2.1	0.8	1.4	1.1	0.7	1.1	1.6	1.8	2.6

New Brunswick

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	-1.1	-0.3	0.1	0.7	1.4	1.8	1.0	0.7	0.7
Nominal GDP	0.7	0.3	1.8	3.1	3.6	4.3	2.2	2.3	2.4
Employment	-0.7	0.4	-0.2	-0.6	-0.1	0.4	0.3	0.2	0.3
Unemployment Rate (%)	10.2	10.3	10.0	9.8	9.6	8.1	7.9	7.6	7.3
Retail Sales	-0.9	0.7	3.7	2.2	2.1	6.8	1.8	3.0	2.9
Housing Starts (Thousands of Units)	3.3	2.8	2.3	2.0	1.8	2.3	2.1	2.1	2.3
Consumer Price Index	1.7	0.8	1.5	0.5	2.2	2.3	2.1	1.9	2.7

Nova Scotia

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	-1.0	-0.4	1.0	0.7	1.5	1.5	0.8	0.8	0.8
Nominal GDP	0.5	2.1	2.9	2.2	2.2	2.9	2.4	2.7	2.7
Employment	1.0	-1.1	-1.1	0.1	-0.4	0.6	1.4	0.4	0.5
Unemployment Rate (%)	9.1	9.1	8.9	8.6	8.3	8.4	7.7	7.5	7.2
Retail Sales	0.9	3.2	2.8	0.2	4.7	7.8	2.4	3.5	3.4
Housing Starts (Thousands of Units)	4.5	3.9	3.1	3.8	3.8	4.0	4.9	3.8	3.6
Consumer Price Index	1.9	1.2	1.7	0.4	1.2	1.1	2.1	2.0	2.7

Prince Edward Island

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.0	1.8	0.2	1.3	1.8	3.5	1.4	1.6	1.2
Nominal GDP	2.7	3.2	1.7	3.9	4.5	4.8	3.1	3.7	3.1
Employment	1.7	1.4	-0.1	-1.2	-2.2	3.1	3.1	1.1	1.1
Unemployment Rate (%)	11.1	11.5	10.6	10.5	10.8	9.8	9.4	9.0	8.6
Retail Sales	3.0	0.9	3.5	2.6	7.3	6.3	4.1	3.8	3.7
Housing Starts (Thousands of Units)	0.9	0.6	0.5	0.6	0.6	0.9	0.8	0.6	0.8
Consumer Price Index	2.0	2.0	1.6	-0.6	1.2	1.8	2.4	2.1	2.7

Newfoundland and Labrador

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	-4.4	5.3	-1.2	-1.2	1.8	0.9	-1.0	2.3	0.3
Nominal GDP	-4.5	7.6	-0.5	-9.2	1.8	4.3	2.8	3.3	2.9
Employment	3.8	0.8	-1.7	-1.0	-1.5	-3.7	0.3	-0.3	-0.2
Unemployment Rate (%)	12.3	11.6	11.9	12.8	13.4	14.8	14.0	14.1	13.9
Retail Sales	4.3	5.2	3.7	0.7	0.4	2.4	-1.4	1.9	1.7
Housing Starts (Thousands of Units)	3.9	2.9	2.1	1.7	1.4	1.4	1.5	1.0	1.4
Consumer Price Index	2.1	1.7	1.9	0.4	2.7	2.4	1.7	2.1	2.6