

TRADE CLOUDS CAST SHADOW OVER SOME PROVINCIAL ECONOMIES

September 2019

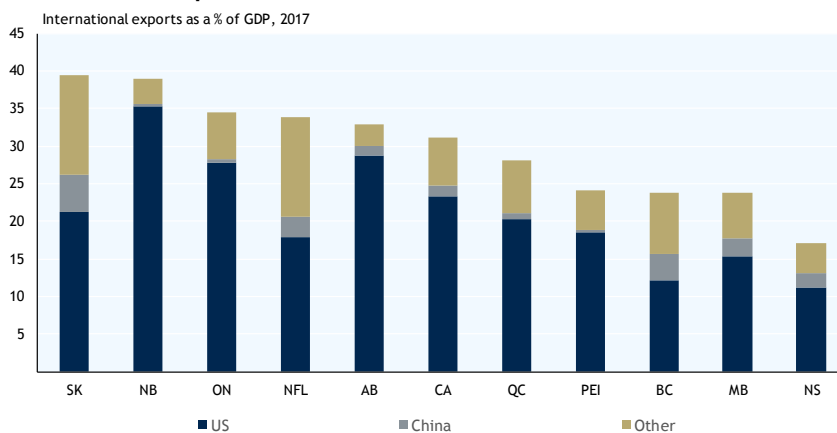
Exposure to international markets can be a boon to provincial economies. Not this year. While the US agreed to lift tariffs on Canadian steel and aluminum in May, its tariffs on lumber remain in place. Meanwhile, China has placed restrictions on some Canadian agricultural commodities, a move that has hit western provinces especially hard. While China only takes in about 5% of Canada's overall exports, it is a significant customer for Canadian farm producers. Additionally, Canadian companies aren't immune to the disruption in global supply chains resulting from the US-China trade dispute.

Saskatchewan, the province with the highest exposure to international trade, has the most at stake. China's decision to ban Canadian canola, soybeans and meat has hit 6% of Saskatchewan's exports. The impact is clear: in the first half of 2019, canola exports fell 27% and soybean exports declined 38%. Factoring in lower consumer spending and a weak housing market, we've cut our 2019 growth outlook for Saskatchewan to 0.6% from 1.1% previously.

Trade woes have also weighed on B.C. and Manitoba. In B.C., merchandise exports are down 2%, reflecting U.S. duties on softwood lumber. Softer housing construction in the U.S. has added to the lumber sector's woes. In Manitoba, agri-food exports to China have plunged 48%. But consumer spending is a bright spot and growth in the second half of 2019 will likely get a boost from a cut in the provincial retail sales tax. We call for Manitoba's economy to grow by 1.3% this year, down from 1.5% previously. In B.C., the start of construction of the LNG project at Kitimat and robust employment growth (up 3.4% in the first 8 months) will offset lumber-sector woes, helping the economy expand by 2.2% in 2019. While that's down from our previous 2.4% growth forecast, it means B.C. remains near the top of the leaderboard once again.

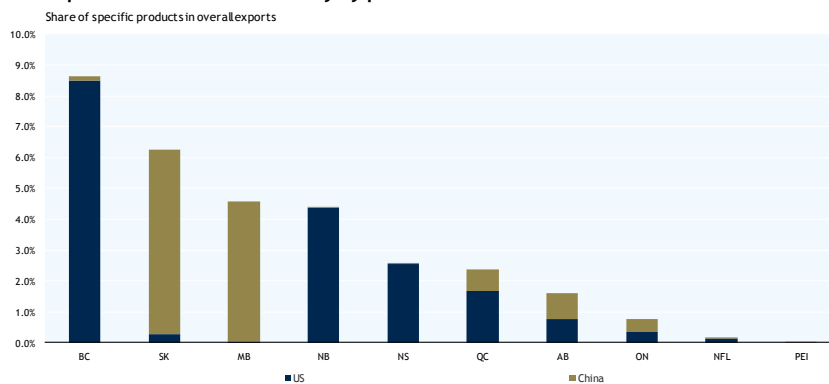
The story in Alberta remains the energy sector's access to markets. Pipeline bottlenecks prompted the previous provincial government to impose mandatory oil-production cuts late last year, which weighed heavily on the provincial economy in late 2018 and early 2019. While the production limit was recently extended, small and mid-sized oil producers got a reprieve. The ongoing curtailments may limit how fast the economy bounces back. We are holding our forecast for 2019 at 0.6% but have downgraded our 2020 forecast to 1.9% in 2020 given the oil-production limits.

Provincial exposure to international trade



Source: Statistics Canada, RBC Economics Research

Exposure to trade actions vary by province



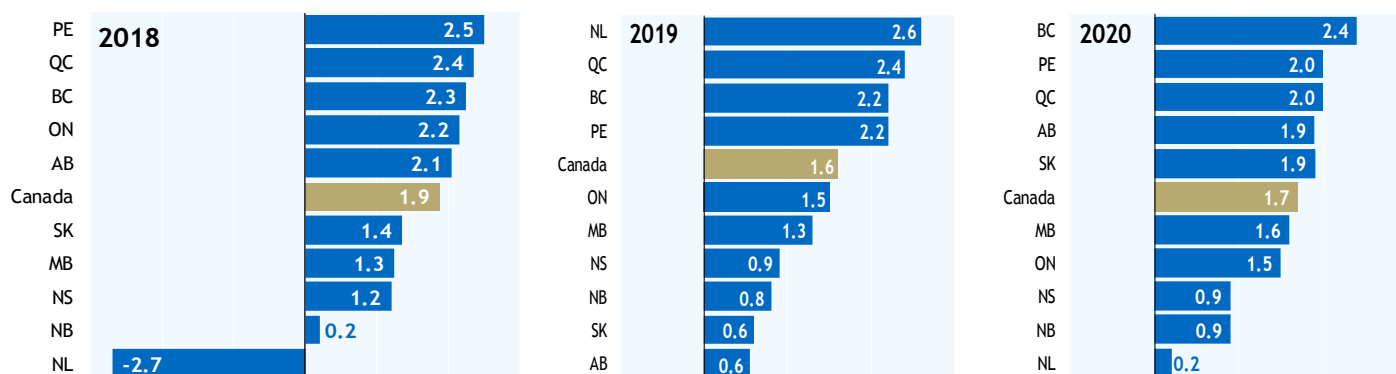
Source: Statistics Canada, RBC Economics Research
Products include soybeans, canola, meat to China and lumber to U.S.



Not all our revisions were to the downside. Quebec continues to power along impressively and we have raised our growth forecast for 2019 to 2.4% from 2%. With the unemployment rate falling below 5% and average weekly wages rising, consumer spending has shown continued strength, with durable goods sales soaring 5.4% on the back of a red-hot housing market. Consumers aren't the only ones feeling good—business confidence in Quebec is the highest in the country. Growth isn't quite as robust in neighbouring Ontario, but we've bumped up our forecast for 2019 growth there too, to 1.5% from 1.4%. Ontario's housing market has shown signs of revival and durable goods sales have increased. In an era of trade uncertainty, Ontario's heavy exposure to the U.S. economy remains a risk. The provincial government has also entered a period of necessary fiscal restraint, which will be a slight drag on growth.

We've made no changes to our growth forecasts for Atlantic Canada. Most of the region is benefitting from strong consumer spending. PEI is riding a wave of immigration, which along with a robust labour market will produce solid growth this year of 2.2%. Both PEI and Nova Scotia are seeing soaring seafood exports, particularly to China. Nova Scotia also has employment growth and thriving residential construction activity. Growth is expected to register at 0.9%. In New Brunswick, trade and manufacturing sales continue to be negatively affected by a major refinery explosion in October 2018. But the economy has benefited from the strongest consumer spending in the Atlantic provinces this year. We expect its economy to grow 0.8% in 2019. And finally, Newfoundland & Labrador still looks poised to lead the country with growth of 2.6% in 2019, with rebounds in mining and oil and gas sectors boosting employment and exports. The recovery won't entirely reverse a sharp 2.7% contraction in 2018.

Real GDP Growth % change



Source: Statistics Canada, RBC Economic Research


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	18	19F	20F	17	18	19F	20F	17	18	19F	20F	17	18	19F	20F	17	18	19F	20F
N.& L.	0.9	-2.7	2.6	0.2	4.3	2.9	4.5	2.0	-3.7	0.5	1.3	0.7	14.8	13.8	12.2	11.5	1.4	1.1	0.7	0.8	2.4	-2.3	-1.3	1.4	2.4	1.7	1.1	2.1
P.E.I.	3.5	2.5	2.2	2.0	4.8	3.3	4.3	4.0	3.1	3.0	2.1	1.4	9.8	9.4	9.1	9.0	0.9	1.1	1.1	1.0	6.3	2.9	3.4	3.5	1.8	2.3	1.0	2.2
N.S.	1.5	1.2	0.9	0.9	2.9	2.2	2.8	2.6	0.6	1.5	2.1	0.6	8.4	7.6	7.1	7.5	4.0	4.8	4.7	4.0	7.8	0.3	3.6	3.5	1.1	2.2	1.4	2.1
N.B.	1.8	0.2	0.8	0.9	4.3	1.2	2.4	2.4	0.4	0.3	0.9	0.4	8.1	8.0	8.2	8.3	2.3	2.3	3.0	2.6	6.8	1.7	2.7	3.2	2.3	2.2	1.7	2.0
QUE.	2.8	2.4	2.4	2.0	5.0	4.5	4.6	3.8	2.2	0.9	1.9	1.1	6.1	5.5	4.9	5.2	46.5	46.9	49.9	46.5	5.5	2.9	2.6	3.2	1.1	1.7	2.0	2.0
ONT.	2.8	2.2	1.5	1.5	4.1	3.4	3.6	3.4	1.8	1.6	2.7	1.2	6.0	5.6	5.6	5.9	79.1	78.7	71.5	73.0	7.7	4.4	2.7	3.0	1.7	2.4	1.9	2.0
MAN.	3.2	1.3	1.3	1.6	5.4	2.7	2.6	3.6	1.7	0.6	1.0	0.6	5.4	6.0	5.5	5.9	7.5	7.4	7.0	5.5	7.8	2.9	2.1	3.2	1.6	2.5	2.3	2.1
SASK.	2.2	1.4	0.6	1.9	4.8	4.2	2.0	3.9	-0.2	0.4	1.7	0.8	6.3	6.1	5.2	5.0	4.9	3.6	2.4	4.0	4.1	-0.3	-0.7	1.3	1.7	2.3	2.1	2.5
ALTA.	4.4	2.1	0.6	1.9	10.0	4.4	2.1	3.1	1.0	1.9	0.5	0.7	7.8	6.6	7.0	6.9	29.5	26.1	25.8	29.0	7.1	2.0	0.1	2.3	1.5	2.5	1.8	1.7
B.C.	3.8	2.3	2.2	2.4	6.9	4.6	4.4	4.6	3.7	1.1	2.9	1.0	5.1	4.7	4.7	5.1	43.7	40.9	43.6	34.0	9.3	2.0	0.9	2.8	2.1	2.7	2.3	1.8
CANADA	3.0	1.9	1.6	1.7	5.6	3.6	3.7	3.6	1.9	1.3	2.1	0.9	6.3	5.8	5.7	5.9	220	213	210	200	7.1	2.9	1.9	2.9	1.6	2.3	2.0	1.7

Key provincial comparisons

(2017 unless otherwise stated)

	Canada	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Population (000s, 2018)	37,059	525	153	960	771	8,390	14,323	1,352	1,162	4,307	4,992
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 (\$2012 billions)	2,016.4	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	1.5	0.3	2.0	1.7	19.5	38.6	3.3	3.7	15.5	13.2
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 (\$ 2012)	55,184	63,967	40,241	41,508	42,924	46,175	54,103	49,870	74,329	79,353	52,188
Real GDP growth rate per capita (CAGR, 2013-18, %)	0.8	-0.4	0.6	0.7	0.5	1.1	1.2	0.5	-0.2	-0.8	1.5
Personal disposable income per capita (\$)	32,300	31,996	28,997	28,978	29,261	28,785	32,645	29,603	32,973	36,705	34,976
Employment growth (CAGR, 2013-18, %)	1.1	-1.5	0.5	0.1	0.0	1.0	1.2	0.7	0.2	0.9	1.9
Employment rate (Jul. 2019, %)	61.9	51.2	60.9	57.2	56.2	61.6	61.1	62.6	65.2	66.4	62.7
Discomfort index (inflation + unemp. rate, July 2019)	7.7	13.5	9.5	9.2	10.2	7.1	7.8	8.0	7.4	8.3	6.5
Manufacturing industry output (% of GDP)	10.4	4.0	10.6	7.8	10.7	14.1	12.2	9.8	6.4	8.5	7.1
Personal expenditures on goods & services (% of GDP)	56.4	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	2.2	2.4
Nominal GDP	2.1	3.4	5.7	2.9	6.0	6.9	4.6	4.4	4.6
Employment	1.6	0.1	0.6	1.2	3.2	3.7	1.1	2.9	1.0
Unemployment Rate (%)	6.8	6.6	6.1	6.2	6.0	5.1	4.7	4.7	5.1
Retail Sales	1.9	2.8	6.3	7.0	7.7	9.3	2.0	0.9	2.8
Housing Starts (Thousands of Units)	27.5	27.1	28.4	31.4	41.8	43.7	40.9	43.6	34.0
Consumer Price Index	1.1	-0.1	1.0	1.1	1.9	2.1	2.7	2.3	1.8

Alberta

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	3.9	5.7	5.9	-3.7	-4.2	4.4	2.1	0.6	1.9
Nominal GDP	4.3	9.6	10.0	-14.0	-6.8	10.0	4.4	2.1	3.1
Employment	3.5	2.5	2.2	1.2	-1.6	1.0	1.9	0.5	0.7
Unemployment Rate (%)	4.6	4.6	4.7	6.0	8.1	7.8	6.6	7.0	6.9
Retail Sales	6.9	7.2	7.9	-4.0	-1.1	7.1	2.0	0.1	2.3
Housing Starts (Thousands of Units)	33.4	36.0	40.6	37.3	24.5	29.5	26.1	25.8	29.0
Consumer Price Index	1.1	1.4	2.6	1.2	1.1	1.5	2.5	1.8	1.7

Saskatchewan

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.7	6.5	2.0	-0.9	-0.4	2.2	1.4	0.6	1.9
Nominal GDP	4.2	6.7	-0.4	-3.9	-4.8	4.8	4.2	2.0	3.9
Employment	2.4	3.1	1.0	0.5	-0.9	-0.2	0.4	1.7	0.8
Unemployment Rate (%)	4.7	4.1	3.8	5.0	6.3	6.3	6.1	5.2	5.0
Retail Sales	7.3	5.2	4.7	-3.3	1.5	4.1	-0.3	-0.7	1.3
Housing Starts (Thousands of Units)	10.0	8.3	8.3	5.1	4.8	4.9	3.6	2.4	4.0
Consumer Price Index	1.6	1.4	2.4	1.6	1.1	1.7	2.3	2.1	2.5

Manitoba

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	3.0	2.9	2.1	1.2	1.6	3.2	1.3	1.3	1.6
Nominal GDP	6.4	4.2	3.1	2.6	2.3	5.4	2.7	2.6	3.6
Employment	1.6	0.7	0.1	1.6	-0.4	1.7	0.6	1.0	0.6
Unemployment Rate (%)	5.3	5.4	5.4	5.6	6.1	5.4	6.0	5.5	5.9
Retail Sales	1.0	3.8	4.2	1.3	3.7	7.8	2.9	2.1	3.2
Housing Starts (Thousands of Units)	7.2	7.5	6.2	5.5	5.3	7.5	7.4	7.0	5.5
Consumer Price Index	1.6	2.3	1.8	1.2	1.3	1.6	2.5	2.3	2.1

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	1.5	1.5
Nominal GDP	3.1	2.2	4.4	4.6	4.4	4.1	3.4	3.6	3.4
Employment	0.7	1.8	0.8	0.7	1.1	1.8	1.6	2.7	1.2
Unemployment Rate (%)	7.9	7.6	7.3	6.8	6.5	6.0	5.6	5.6	5.9
Retail Sales	1.6	2.7	5.7	5.3	6.9	7.7	4.4	2.7	3.0
Housing Starts (Thousands of Units)	76.7	61.1	59.1	70.2	75.0	79.1	78.7	71.5	73.0
Consumer Price Index	1.4	1.1	2.3	1.2	1.8	1.7	2.4	1.9	2.0



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	2.4	2.4	2.0
Nominal GDP	2.7	3.0	3.0	2.9	2.8	5.0	4.5	4.6	3.8
Employment	0.8	1.4	0.0	0.9	0.9	2.2	0.9	1.9	1.1
Unemployment Rate (%)	7.7	7.6	7.7	7.6	7.1	6.1	5.5	4.9	5.2
Retail Sales	1.2	3.0	2.6	1.9	6.6	5.5	2.9	2.6	3.2
Housing Starts (Thousands of Units)	47.4	37.8	38.8	37.9	38.9	46.5	46.9	49.9	46.5
Consumer Price Index	2.1	0.8	1.4	1.1	0.7	1.1	1.7	2.0	2.0

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	0.2	0.8	0.9
Nominal GDP	0.7	0.3	1.8	3.1	3.6	4.3	1.2	2.4	2.4
Employment	-0.7	0.4	-0.2	-0.6	-0.1	0.4	0.3	0.9	0.4
Unemployment Rate (%)	10.2	10.3	10.0	9.8	9.6	8.1	8.0	8.2	8.3
Retail Sales	-0.9	0.7	3.7	2.2	2.1	6.8	1.7	2.7	3.2
Housing Starts (Thousands of Units)	3.3	2.8	2.3	2.0	1.8	2.3	2.3	3.0	2.6
Consumer Price Index	1.7	0.8	1.5	0.5	2.2	2.3	2.2	1.7	2.0

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	1.2	0.9	0.9
Nominal GDP	0.5	2.1	2.9	2.2	2.2	2.9	2.2	2.8	2.6
Employment	1.0	-1.1	-1.1	0.1	-0.4	0.6	1.5	2.1	0.6
Unemployment Rate (%)	9.1	9.1	8.9	8.6	8.3	8.4	7.6	7.1	7.5
Retail Sales	0.9	3.2	2.8	0.2	4.7	7.8	0.3	3.6	3.5
Housing Starts (Thousands of Units)	4.5	3.9	3.1	3.8	3.8	4.0	4.8	4.7	4.0
Consumer Price Index	1.9	1.2	1.7	0.4	1.2	1.1	2.2	1.4	2.1

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	2.5	2.2	2.0
Nominal GDP	2.7	3.2	1.7	3.9	4.5	4.8	3.3	4.3	4.0
Employment	1.7	1.4	-0.1	-1.2	-2.2	3.1	3.0	2.1	1.4
Unemployment Rate (%)	11.1	11.5	10.6	10.5	10.8	9.8	9.4	9.1	9.0
Retail Sales	3.0	0.9	3.5	2.6	7.3	6.3	2.9	3.4	3.5
Housing Starts (Thousands of Units)	0.9	0.6	0.5	0.6	0.6	0.9	1.1	1.1	1.0
Consumer Price Index	2.0	2.0	1.6	-0.6	1.2	1.8	2.3	1.0	2.2

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	-2.7	2.6	0.2
Nominal GDP	-4.5	7.6	-0.5	-9.2	1.8	4.3	2.9	4.5	2.0
Employment	3.8	0.8	-1.7	-1.0	-1.5	-3.7	0.5	1.3	0.7
Unemployment Rate (%)	12.3	11.6	11.9	12.8	13.4	14.8	13.8	12.2	11.5
Retail Sales	4.3	5.2	3.7	0.7	0.4	2.4	-2.3	-1.3	1.4
Housing Starts (Thousands of Units)	3.9	2.9	2.1	1.7	1.4	1.4	1.1	0.7	0.8
Consumer Price Index	2.1	1.7	1.9	0.4	2.7	2.4	1.7	1.1	2.1

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