

## 2021 promises better days from coast to coast

December 15, 2020

As the clock ticks down on the *annus horribilis* that was 2020, there's high hope the New Year will bring some normalcy to all corners of the country. This won't happen overnight. The second wave of COVID-19 is still getting worse, reaching provinces and regions that were largely spared during the initial wave, prompting new restrictions. Clearly the start of 2021 will be turbulent for provincial economies, some of them possibly seeing their burgeoning recovery regress temporarily. But the imminent onset of mass vaccination campaigns will be a game-changer. We believe they will achieve a significant flattening of the curve by the middle of the year. As progress is made, we expect provincial and local authorities to gradually ease restrictions, setting the stage for growth spurts across the country. Better days are ahead!

The math of coming off an extremely low base in 2020 means economic growth in 2021 will look gigantic in nearly all provinces. Growth numbers will overstate underlying strength. In fact, we project 2021 activity to come short of 2019 levels in all but two provinces—Manitoba and Prince Edward Island. The continuing drag of hard-hit industries (including accommodation and food services, arts and entertainment, and transportation services) will keep the recovery incomplete until 2022 in most cases.

We expect growth in Newfoundland and Labrador to be the weakest in 2021, at 2.8%, due to the winding down of major construction projects and declining population.

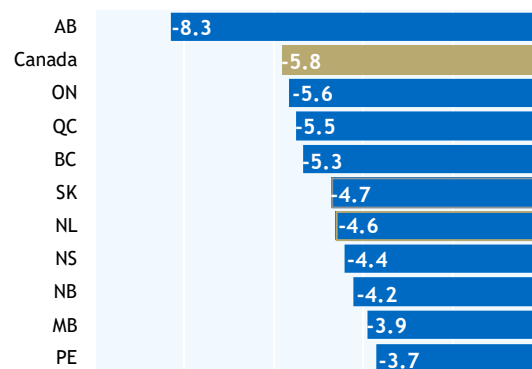
Other Atlantic provinces will also rank toward the lower end of our 2021 growth rankings though that's largely because they suffered relatively less severe downturns in 2020—in part a reflection of low coronavirus case rates in the region. Nova Scotia (+4.3%) and New Brunswick (+4.0%) are well on their way to full recovery, with employment levels already close to pre-crisis levels.

The virulence of the second wave is clearly a setback for Manitoba (+4.4%). Yet strong agri-food activity alongside increased capital investment will keep things on track. Both factors will also fuel growth in Saskatchewan (+4.7%).

Alberta (+4.5%) will begin to climb out of a very deep hole (we forecast GDP to plummet 8.3% in 2020). Improving oil prices

**Real GDP Growth**  
% change

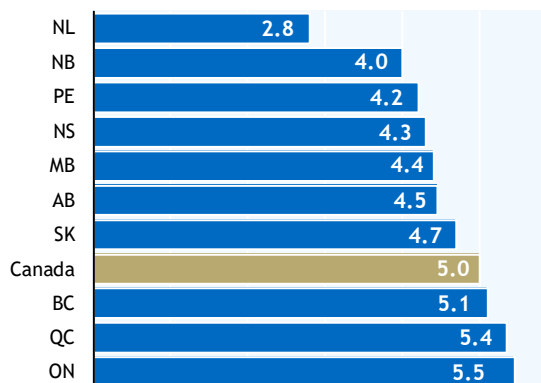
2020



Source: Statistics Canada, RBC Economics

**Real GDP Growth**  
% change

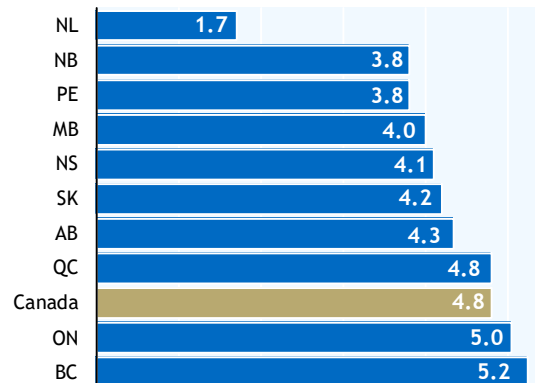
2021



Source: Statistics Canada, RBC Economics

**Real GDP Growth**  
% change

2022



Source: Statistics Canada, RBC Economics

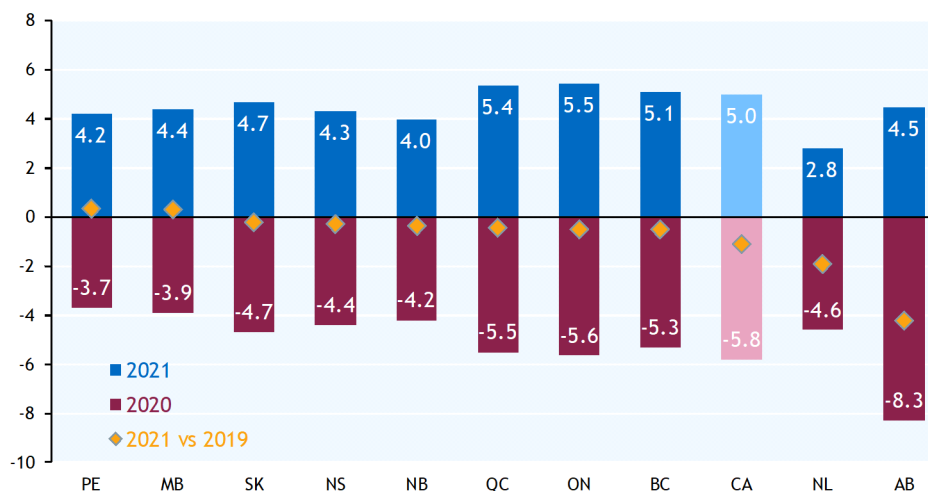
should spur drilling activity from depressed levels, and oil production is poised to rise on the heels of the provincial government lifting curtailments.

We project growth in British Columbia (+5.1%) to edge out the national average (+5.0%) on the back of robust capital investment and rebounds in forest products and tourism.

Our outlook for Quebec (+5.4%) and Ontario (+5.5%) has households dipping into the massive savings they built up in 2020 to drive up consumption, and governments providing substantial economic stimulus. Both provinces were hit particularly hard by COVID-19.

### Provincial economies to recover strongly—though still partially—in 2021

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



Source: Statistics Canada, RBC Economics

## BRITISH COLUMBIA - Capital projects to fuel the recovery in 2021

*Major capital investment and surging demand for lumber bode well for the province in the coming year. We expect BC will be among the faster-growing provincial economies in 2021.*

British Columbia looks set to post a middle-of-the-pack 5.3% contraction in GDP in 2020. Barring an unanticipated deterioration in the pandemic situation, the outlook for the coming year is much more encouraging. We project strong capital investment and a rebound in major industrial sectors to propel growth to a 33-year high of 5.1%.

In fact, even in the midst of the pandemic, work on major capital projects in the province has proceeded with minimal disruption. Construction progressed on the Coastal GasLink pipeline. The LNG Kitimat megaproject made further strides toward its peak construction phase expected during the second half of 2021, which will create 3,000 jobs. Construction on the Site C hydroelectric dam—currently employing 5,000 workers—also advanced though the project hit engineering snags that raised completion risks.

Strong house building and renovation activity across the continent bode well for the province's lumber industry. The industry turned the corner in 2020 with wood product sales posting double digit gains during the summer months and lumber prices rising 66% year-to-date.

We see scope for BC's tourism sector to start recovering in the year ahead once traveling restrictions ease and COVID-19 immunization reaches critical mass. Freer non-essential travel across Canada would particularly benefit British Columbia as Canadians from other provinces spend nearly twice as much in BC as British Columbians do in other provinces.

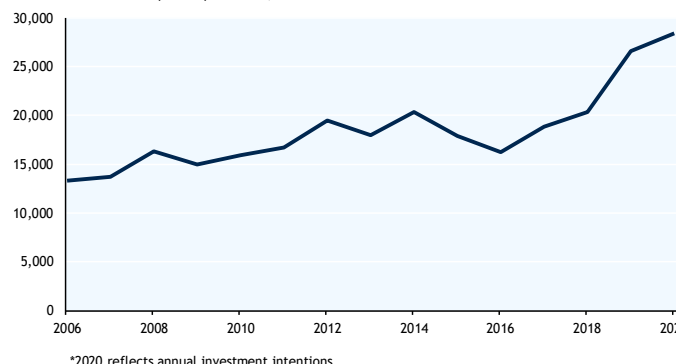
We expect governments at all levels to boost infrastructure investment and implement other measures to get the economy going. Provincial capital investment is up 8.8% from 2019/20 and is planning to increase it further in 2021-2022. Despite a record budget deficit of \$12.8 billion (4.1% of GDP) projected for 2020-2021, the BC government carries one of the lowest debt burdens in the country. This should provide the flexibility to foster a solid economic recovery.

More fiscal support is coming to approximately 3.7 million British Columbians and will provide additional stimulus.

Immigration is a major wildcard for 2021. As the province receiving the second-highest number of immigrants annually, British Columbia could face another year of weak population growth if the flow of new immigrants stays anemic.

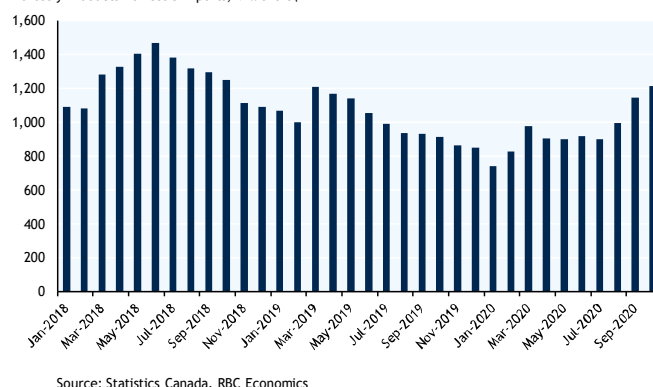
### BC Construction capital expenditure up 6.9% in 2020

Construction Capital Expenditures, Mil C\$



### BC wood product sales posted double digit gains in summer

Forestry Products Domestic Exports, Millions C\$



### British Columbia forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	2.7	2.7	-5.3	5.1	5.2
Nominal GDP	4.9	4.4	-4.3	7.3	7.5
Employment	1.1	2.6	-6.1	6.3	2.1
Unemployment Rate (%)	4.7	4.7	8.9	6.7	5.6
Retail Sales	1.9	0.6	1.4	7.8	4.9
Housing Starts (Thousands of Units)	40.9	44.9	36.1	34.5	36.3
Consumer Price Index	2.7	2.3	0.7	0.8	1.8

## ALBERTA - Double whammy will leave scars for years

*The oil price crash will continue to weigh heavily on Alberta's economy for years to come. The recovery is taking hold in the province but there's a lot of ground to make up for, as 2020 saw the worst one-year decline on record.*

Just when we thought Alberta's economy would finally complete its recovery from the 2015-2016 recession, COVID-19 and an oil price crash this past spring set things back in a huge way. We project the economy will contract by a staggering 8.3% in 2020—a single-year record for the province. While we expect the situation to improve meaningfully in 2021 with a 4.5% growth, the road will be long. In fact, we believe it could take until 2023 to entirely reverse 2020's damage.

Much of the economic rebound in 2021 will have to do with the extremely low base set in 2020. Take capital investment in the energy sector. It has plummeted to levels unseen in over a decade. The good news is recovering oil prices have breathed new life into drilling this fall. And we expect this trend to continue in 2021.

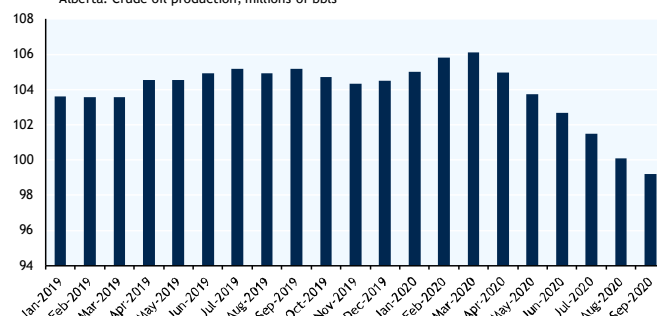
Oil production is likely to increase in 2021, as production curtailments have been lifted and stronger global economic growth will boost energy demand. Pipeline capacity constraints have eased this year, and crude-by-rail and the line 3 replacement will alleviate pressure in the near-term.

Significant challenges will persist for commercial real estate, which will keep investment in the sector depressed. Calgary's office overhang rose further in the past year (vacancy rate reached an astounding 29%). Consolidation resulting from impending mergers and acquisitions in the oil and gas industry threaten to make the situation worse.

Alberta delivered its mid-year fiscal update at the end of November, and projected a record deficit of \$21.3 billion (7.0% of GDP). Taking back control of the public purse will be a daunting task for the provincial government as a key revenue source—non-renewable resource revenue—is poised to stay volatile. At least it will take on the challenge from a position of a low debt-to-GDP ratio and tax burden.

### Alberta oil production expected to pick up from depressed levels

Alberta: Crude oil production, millions of bbls



Source: Statistics Canada, RBC Economics

### Alberta oil and gas capital expenditure fell 30% in 2020

billions C\$



Source: Statistics Canada, RBC Economics

### Alberta forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	1.9	0.1	-8.3	4.5	4.3
Nominal GDP	3.4	2.7	-12.8	8.5	8.1
Employment	1.9	0.5	-7.1	4.3	2.5
Unemployment Rate (%)	6.6	6.9	11.4	9.6	7.2
Retail Sales	1.8	-0.8	-3.7	5.2	4.2
Housing Starts (Thousands of Units)	26.1	27.3	22.9	22.5	22.5
Consumer Price Index	2.5	1.7	1.1	0.8	1.9

## SASKATCHEWAN - Recovery to take shape in Canada's bread-basket

*Saskatchewan will come very close to a full recovery in 2021 thanks to a strong agri-food sector and higher capital investment.*

Saskatchewan was largely spared by the pandemic at the onset of the crisis. The second wave hit much harder, though, prompting the provincial government to reinstate restrictions this fall. While these measures will increase disruptions to businesses like restaurants, bars and movie theatres, we believe they will not jeopardize the economic recovery taking shape in the province. After contracting by a projected 4.7% in 2020, we expect the provincial economy will rebound 4.7% in 2021. This would return overall activity very close to pre-pandemic levels.

The agri-food sector will continue to be a bright spot for the province. The value of grains, oilseeds and other major food exports surged 42% in the first 10 months of 2020, led by wheat and canola. We expect strong global demand to further benefit Saskatchewan producers in 2021. Moreover, higher crop prices this year will bolster potash demand, driving higher volumes and prices in 2021.

The outlook for the oil and gas industry remains clouded though we think the rebound in oil prices since the cyclical low point last spring will set the stage for a mild recovery in the year ahead. We note drilling activity has picked up slightly this fall from historically depressed levels in the summer.

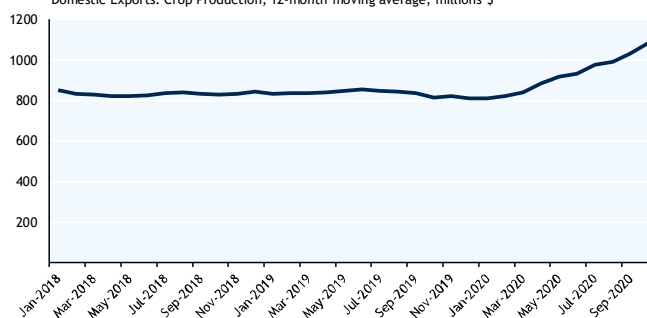
The provincial government is boosting its capital plan to \$7.5 billion over two years. It is significantly increasing spending on roads, municipal infrastructure, and schools in 2021-22. This will provide sizable stimulus to the economy, leading to the creation of 10,000 jobs the government estimates.

Residential investment has turned a corner. Housing starts increased significantly in 2020 albeit from an 18-year low in 2019. With red-hot housing demand propelling home resales to record-high levels this fall, we expect home construction activity to continue increasing in 2021.

Saskatchewan released its mid-year fiscal update at the end of November, penciling in a deficit of \$2 billion, \$382 million lower than in Budget 2020. With the lowest debt-to-GDP level of all provinces, at 19.6% of GDP, Saskatchewan is well-positioned to weather the storm.

### Saskatchewan crop production exports trended higher in 2020

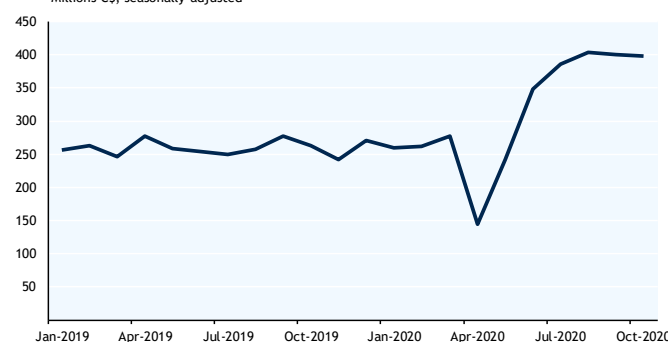
Domestic Exports: Crop Production, 12-month moving average, millions \$



Source: Innovation, Science, & Economic Development, RBC Economics

### Saskatchewan's housing market on an upswing

Millions C\$, seasonally-adjusted



Source: Canadian Real Estate Association, RBC

### Saskatchewan forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	1.2	-0.7	-4.7	4.7	4.2
Nominal GDP	3.2	0.1	-9.0	8.4	6.8
Employment	0.4	1.8	-4.8	3.7	1.8
Unemployment Rate (%)	6.1	5.4	8.2	6.6	5.9
Retail Sales	-0.5	0.3	-1.1	5.3	3.3
Housing Starts (Thousands of Units)	3.6	2.4	3.0	3.1	3.4
Consumer Price Index	2.3	1.7	0.6	1.6	2.0

## MANITOBA - Good prospects despite second wave setback

*We expect Manitoba fully recover from the recession by the end of 2021 thanks to relative success during the first wave of the pandemic, strength in agri-food exports, and growing provincial capital investment.*

The intensity of the pandemic's second wave in Manitoba is a clear setback for public health and the provincial economy. After having emerged from the first wave quicker and in better shape than most of the country, Manitoba's economy is facing renewed pressure from business lockdowns and strict social distance orders as 2020 draws to a close. We believe these tougher measures will be relatively short-lived and the economic recovery that began last summer will stay on track in 2021. In fact, we see Manitoba being among the first provinces to fully recover from the recession. Part of this will reflect the comparatively less severe shock suffered (overall) in 2020—we project Manitoba GDP to contract 3.9%, the second-"best" result after PEI. It will also reflect encouraging growth prospects for provincial exports and capital investment. We forecast the economy to grow by a solid 4.4% in 2021.

Manitoba's non energy-sector exports have held up relatively well in 2020, sliding by a slight 1.2% in the first 10 months. Exports of agricultural products increased significantly, led by canola, barley, and malt. We expect further gains in the year ahead despite a possible retracement in canola due to lower yields in the 2020 harvest. A new pea-processing plant is expected to come online by the end of 2020, which will contribute positively to provincial exports in 2021.

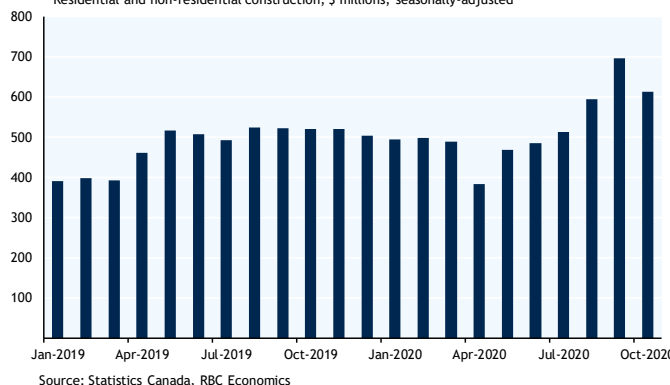
In the manufacturing sector, we see growing demand for electric buses produced in the province. New federal funding for electric transit announced in the fall fiscal update should help further stimulate orders.

Public and private sector projects will sustain capital investment. The Manitoba government is planning to boost infrastructure spending by 17% to \$2.1 billion 2021-22. Initial work will begin on the new Minago Victory Nickel mine, a \$600 million project.

The provincial government's commitment to increase capital spending will come despite having to deal with a record \$2.9 million budget deficit in 2020-21.

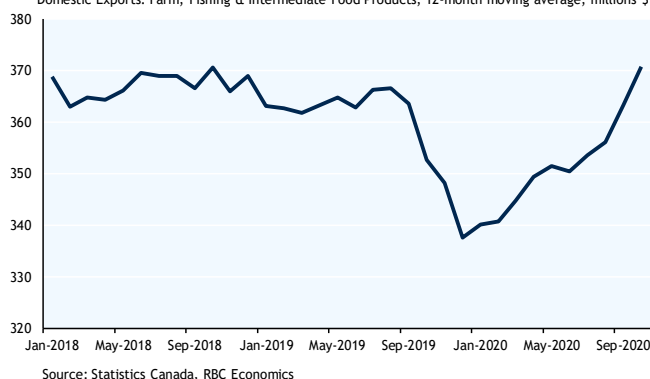
### Construction provides some lift in Manitoba

Residential and non-residential construction, \$ millions, seasonally-adjusted



### Manitoba agri-food exports rebounded in 2020

Domestic Exports: Farm, Fishing & Intermediate Food Products, 12-month moving average, millions \$



### Manitoba forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	1.5	0.6	-3.9	4.4	4.0
Nominal GDP	2.5	1.0	-2.0	6.2	5.9
Employment	0.6	0.9	-3.4	2.8	1.6
Unemployment Rate (%)	6.0	5.3	7.9	6.5	5.9
Retail Sales	2.2	0.8	1.6	6.0	3.0
Housing Starts (Thousands of Units)	7.4	6.9	6.7	6.1	6.3
Consumer Price Index	2.5	2.3	0.5	1.0	1.9



## ONTARIO - From turbulence to top speed

*We expect the provincial economy to take flight this spring once immunization campaigns ramp up, setting Ontario on course to lead all other provinces in terms of growth in 2021.*

The pandemic is a continuing, heart-wrenching ordeal for families, communities and businesses across Ontario. The first wave pummeled the province, triggering the biggest, most sudden economic contraction in memory. The second wave is even worse from a case count perspective, with hospitalizations still on the rise. Yet the toll on the economy to date has been far lighter, thanks to more regionalized and targeted restrictions, and strong support programs. More severe economic damage cannot be ruled out near term though we expect the outlook will brighten considerably once immunization campaigns ramp up. Our base case has the provincial economy taking flight this spring before reaching top speed over the second half of 2021. This pattern will produce an annual growth rate of 5.5% —the strongest among the provinces.

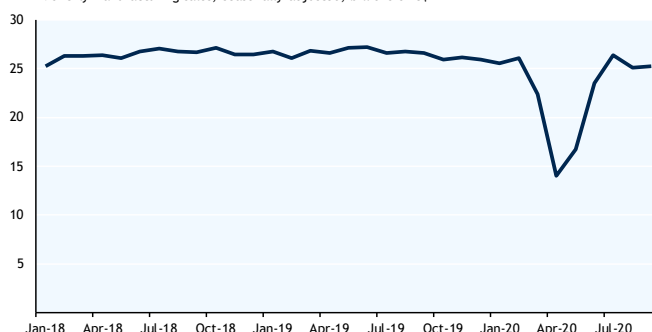
Ontario's job market has been on the mend since summer. It maintained positive momentum into the late stages of 2020 despite turbulence from the second wave. The construction and manufacturing sectors accounted for many of the new hires (or most often, re-hires) this fall. Manufacturing employment has in fact returned to pre-pandemic levels. We expect the jobs recovery to broaden to other sectors as restrictions ease over the coming year.

The V-shape recovery in manufacturing is a very encouraging sign. We believe there's more room to grow as consumers worldwide shift their spending toward goods. We forecast double-digit increases in motor vehicle sales in 2021 in both the US and Canada, which should benefit Ontario's industry. The announcement of multi-billion dollar investments in the province by major motor vehicle producers bodes well for the future of the industry in Ontario.

One of the more surprising developments during the pandemic has been the strength of the provincial housing market. Record-high household savings, rock-bottom interest rates and changing housing needs have propelled overall activity and prices to never-before-seen levels. We expect these factors will keep the market generally hot again in 2021 though believe anemic immigration levels, if sustained, will temper new home building somewhat.

### Ontario manufacturing sector has nearly fully

Monthly manufacturing sales, seasonally-adjusted, billions of C\$



Source: Statistics Canada, RBC Economics

### Ontario housing market reached record levels

Home resales, thousand units; seasonally-adjusted annualized



Source: Canadian Real Estate Association, RBC Economics

### Ontario forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	2.8	2.1	-5.6	5.5	5.0
Nominal GDP	4.1	3.8	-3.7	7.3	6.7
Employment	1.6	2.9	-4.9	5.8	1.9
Unemployment Rate (%)	5.6	5.6	9.5	7.7	6.0
Retail Sales	4.5	2.3	-3.4	9.9	5.3
Housing Starts (Thousands of Units)	78.7	69.0	83.2	77.5	75.5
Consumer Price Index	2.4	1.9	0.6	1.1	1.8

## QUEBEC - Pivoting to a better place

*There's a few chapters left to the tale of two economies in the province though the main story for 2021 will be about growth. We expect consumers and governments contributing to a sharp rebound.*

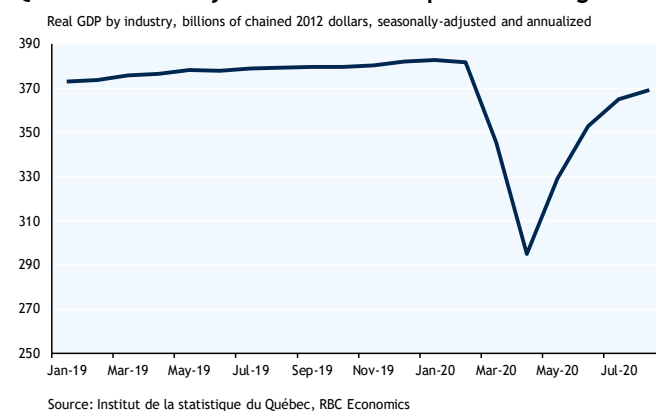
As massive as the initial COVID-19 blow was last spring, the Quebec economy quickly pivoted to recovery mode once restrictions eased at the start of summer. By summer's end, the economy had made up 85% of the ground lost in March and April. We expect significant progress on the remaining 15% in 2021. The second wave could temporarily stall things but we believe large scale immunization campaigns will get the recovery back on track. When all is said and done, we expect Quebec's economy to be just a hair short of fully healed in 2021 with a growth rate of 5.4%. This would come on the heels of a staggering 5.5% plunge in 2020—the steepest one-year decline on record.

To be sure, the recovery that got underway last summer has been uneven. It will continue to be. Activity in retail trade, housing, professional services and public administration is back to pre-pandemic levels or higher. It's been a much slower grind in accommodation and food services, arts and entertainment, and transportation services. While we see definite room for improvement in these industries, the road ahead is likely to be bumpy.

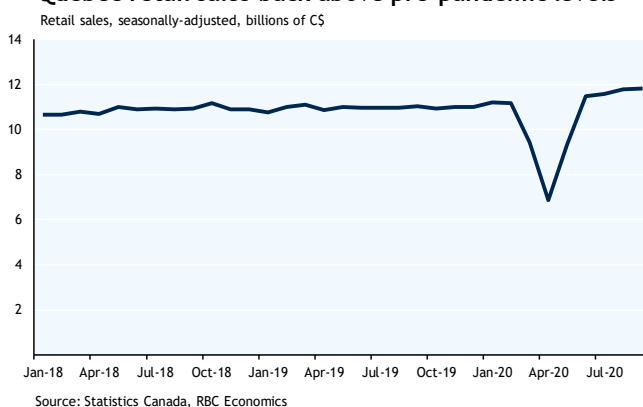
We expect much economic thrust to come from Quebecers themselves. We believe they will wind down part of the outsized savings they built up in the early stages of the pandemic, keeping a fire under consumer spending and the housing market. Governments will pitch in as well. In addition to federal stimulus, the Quebec government is deploying substantial resources to foster the recovery. In the fall budget update, it boosted its recovery plan to \$21.1 billion or 4.8% of GDP, the highest among the provinces. The measures include bringing forward \$3 billion in capital investment.

Resource-producing regions of the province will benefit from rebounding global demand for commodities. The outlook for Montreal's downtown, on the other hand, is more challenging as workers' return to the city's office towers is likely to be only gradual.

### Quebec's economy so far has made up 85% of lost ground



### Quebec retail sales back above pre-pandemic levels



### Quebec forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	2.9	2.7	-5.5	5.4	4.8
Nominal GDP	5.4	4.3	-3.6	7.0	6.5
Employment	0.9	1.8	-4.6	5.5	2.0
Unemployment Rate (%)	5.5	5.1	8.9	6.9	6.0
Retail Sales	3.6	0.9	-1.2	9.6	3.7
Housing Starts (Thousands of Units)	46.9	48.0	54.4	50.5	45.3
Consumer Price Index	1.7	2.1	0.7	1.0	1.9



## NEW BRUNSWICK - Forging Ahead

*Advancing labour market recovery will help turn the tide for New Brunswick's economy in 2021. Positive export prospects will also contribute.*

Provinces with lower rates of confirmed COVID-19 cases have done relatively “better” economically in 2020. This applies to New Brunswick, which we believe will contract the third-least among the provinces. Still, with a projected GDP decline of 4.2%—the biggest drop in at least 40 years—there isn’t much to cheer about. The outlook for 2021 is definitely more encouraging with activity expected to bounce back as restrictions ease and confidence returns. In fact, signs that the recovery process is in motion have already emerged. We expect the New Brunswick’s economy to grow 4.0% in 2021.

One of those encouraging signs is employment. By the fall, 92% of New Brunswickers who lost their jobs at the worst of the crisis had re-gained employment. Services-sector jobs had nearly returned to pre-pandemic levels. We expect further progress in 2021. Among other things, this will support growth in consumer spending in the province.

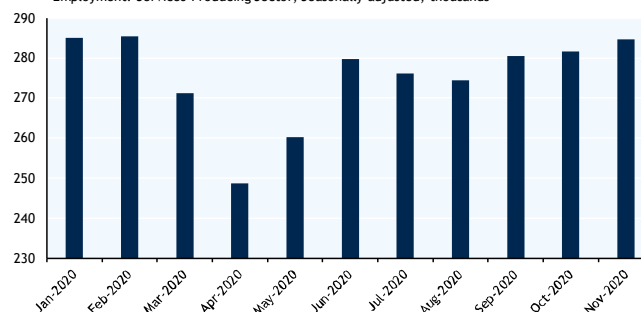
We see improving prospects for provincial exporters. Demand for New Brunswick refined oil products is poised to rise as motor vehicle usage picks up in Canada and abroad. Lobster and other seafood exports have room to grow after processing capacity issues (including at a fire processing plant) hampered output in 2020. For this to occur, though, Canada will need to manage the arrival of temporary foreign workers more expediently than it did in 2020. A busy housing construction sector in both Canada and the US will sustain strong demand for New Brunswick lumber.

Tourism will make a comeback once travel restrictions are eased—at least within Canada. Any comeback has the potential to be quite substantial considering how deep activity fell in 2020. For instance, hotel occupancy rates plummeted 48% during the peak summer months.

A significant economic recovery in 2021 will be welcome news for the New Brunswick government as it tackles the \$183 million budget deficit it projects for 2020-2021. The province got out of a string of larger deficits just three years ago.

### Services-sector employment close to pre-crisis levels in New Brunswick

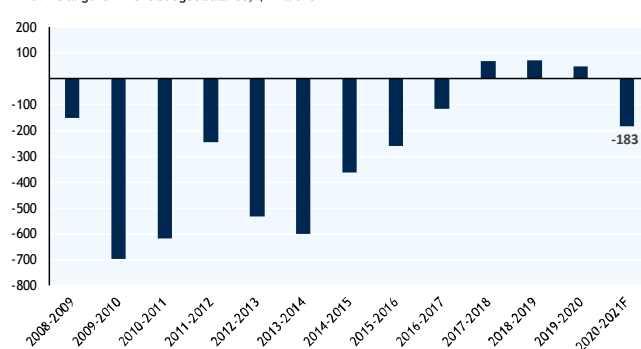
Employment: Services-Producing Sector, Seasonally adjusted, thousands



Source: Statistics Canada, RBC Economics

### New Brunswick deficit pales in comparison to prior years

Provincial government budget balance, \$ millions



Source: New Brunswick Finance & Treasury Board, RBC Economics

### New Brunswick forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	0.5	1.2	-4.2	4.0	3.8
Nominal GDP	3.6	3.0	-2.5	5.6	5.8
Employment	0.3	0.8	-2.5	3.2	1.0
Unemployment Rate (%)	8.0	8.0	9.8	8.4	7.7
Retail Sales	1.7	2.1	2.2	6.1	3.2
Housing Starts (Thousands of Units)	2.3	2.9	3.3	3.4	3.4
Consumer Price Index	2.2	1.7	0.2	1.0	2.0



## NOVA SCOTIA - Weathering the storm

*Strong labour market recovery alongside mounting capital investment will steer Nova Scotia in the right direction in 2021.*

Significant turnaround in the labour market coupled with robust capital spending will set the stage for a sharp rebound in Nova Scotia's economy in 2021. We'll have to wait for greater export strength and higher immigration levels in 2022 before the recovery will be complete, however. We project provincial GDP to grow 4.3% in 2021 after contracting by a record 4.4% in 2020.

We're very encouraged to see employment in Nova Scotia returning so quickly to pre-crisis levels. By November, 97% of jobs lost between February and April had been recovered. Nova Scotia is the only province where the unemployment rate recently fell below where it was in February 2020. We expect enhanced public-sector capital investment, alongside a gradual recover in tourism to provide additional lift to employment in 2021. This bodes well for growth in household spending.

The provincial government has boosted its capital investment budget by 23% to \$1.3 billion in 2020-21 to stimulate the economy. We expect spending on roads, schools and healthcare facilities will stay elevated in the year ahead. In the private sector, refitting work on the National Defense's naval frigates will keep the province's shipbuilding industry busy, while increased mining exploration activity could yield new discoveries in the future.

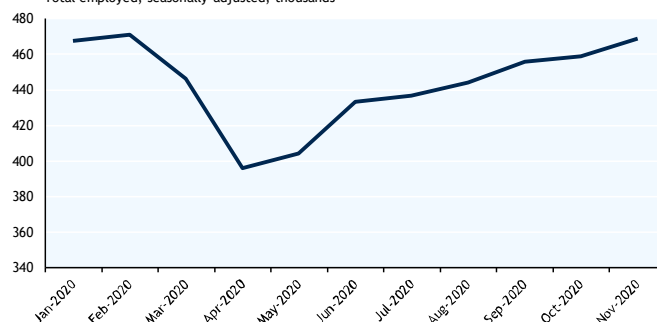
We see some scope for provincial exports to rise in 2021—thanks to improved prospects for tires and seafood—though the recovery is poised to be only partial. Merchandise exports fell 16% in the first 10 months of 2020, with particular weakness in tires, seafood and forest products (reflecting the closure of the Northern Pulp mill).

While we expect immigration to resume once immunization is well underway, it isn't likely to snap back to pre-pandemic levels in the coming year. This will continue to weigh on parts of the provincial economy including new home construction (we forecast housing starts to fall for a second-straight time in 2021).

The provincial government projects a record budget deficit of \$873 million in 2020-21, reflecting lower revenues and \$580 million in additional spending in response to the pandemic.

### 97% of pandemic job losses have been recovered in Nova Scotia

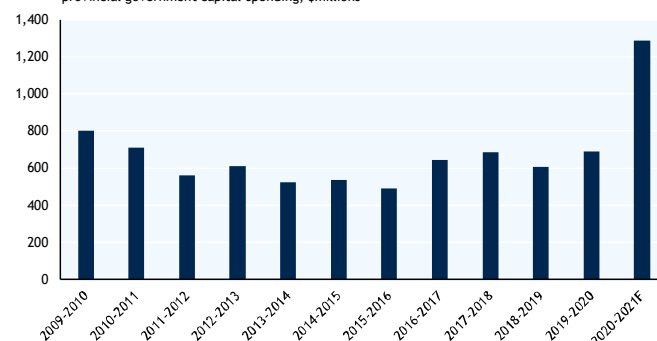
Total employed, seasonally-adjusted, thousands



Source: Statistics Canada, RBC Economics

### Nova Scotia plans record-breaking capital investment

provincial government capital spending, \$millions



Source: Nova Scotia Department of Finance & Treasury Board, RBC Economics

### Nova Scotia forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	1.9	2.4	-4.4	4.3	4.1
Nominal GDP	3.6	3.8	-2.8	6.0	6.2
Employment	1.5	2.2	-4.4	5.7	1.7
Unemployment Rate (%)	7.6	7.2	9.5	7.7	7.3
Retail Sales	0.2	2.5	-2.6	7.4	4.5
Housing Starts (Thousands of Units)	4.8	4.7	4.4	4.1	4.3
Consumer Price Index	2.2	1.6	0.2	0.9	2.0

## PRINCE EDWARD ISLAND - Eager to welcome back visitors (spenders)

*We project PEI to be among the first provincial economies returning to pre-COVID levels in 2021. This partly reflects our optimism about a tourism sector rebound. A relatively less severe downturn in 2020 will also set a stronger starting point.*

PEI contained the spread of COVID-19 quite well under the Atlantic Bubble with just 84 confirmed cases and no deaths recorded by early December. Economic damage caused by the pandemic was also less severe compared to other provinces—albeit still the worst recession PEI suffered in generations with GDP projected to contract 3.7%. We expect the eventual easing of travel restrictions will be a boon for the province. We think some of it will come in 2021, setting the stage for a solid 4.2% rebound in economic growth. This would place PEI among the first to fully recover from the recession.

With immunization campaigns against COVID-19 starting imminently, we believe there's scope for a material rebound in tourism activity in 2021. While it could be a while before we see international visitors return in large numbers, we believe Canadians could be able to travel more freely within our country as soon as immunization reaches critical mass. This would significantly benefit PEI, as it represents a prime destination for Canadian tourists.

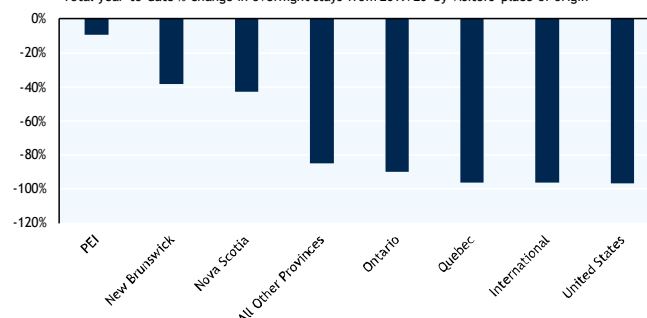
The province's strength in the food product sector—for which global demand stayed strong throughout the pandemic—has been a source of economic resilience. Food product exports rose 18% in the first 10 months of 2020 led by a 34% surge in frozen potatoes. We expect positive momentum to carry into 2021 though a smaller potato crop in 2020 possibly poses a downside risk for frozen processed product output in the year ahead.

The outlook PEI's aerospace industry, however, remains challenging given the severe difficulties facing global airlines.

The resumption of economic growth will help shrink the provincial budget deficit in 2021-22 to \$5.3 million, after it surged to a record-high \$172 million in 2020-21. PEI is in better financial shape than other Atlantic provinces, with the lowest debt-to-GDP ratio.

### Atlantic Bubble helped support PEI overnight stays, if only slightly

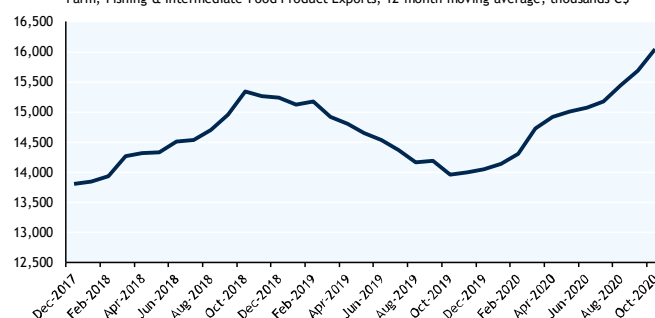
Total year-to-date % change in overnight stays from 2019/20 by visitors' place of origin



Source: PEI Department of Economic Growth, Tourism, and Culture, RBC Economics

### Food product exports a source of economic resilience for PEI

Farm, Fishing & Intermediate Food Product Exports, 12-month moving average, thousands C\$



Source: Statistics Canada, RBC Economics

## Prince Edward Island forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	2.5	5.1	-3.7	4.2	3.8
Nominal GDP	3.6	7.0	-2.0	6.0	5.6
Employment	3.0	2.7	-2.5	4.2	2.0
Unemployment Rate (%)	9.4	8.8	10.6	9.4	9.2
Retail Sales	2.7	3.9	0.8	8.0	3.5
Housing Starts (Thousands of Units)	1.1	1.5	1.1	1.0	1.0
Consumer Price Index	2.3	1.2	0.1	1.2	2.0

## NEWFOUNDLAND & LABRADOR - COVID-19 is just one of the challenges facing the province

*The provincial economy looks set to turn the page on a tough year in 2020. Recovery from the COVID-19 recession will be slow and drawn out, however.*

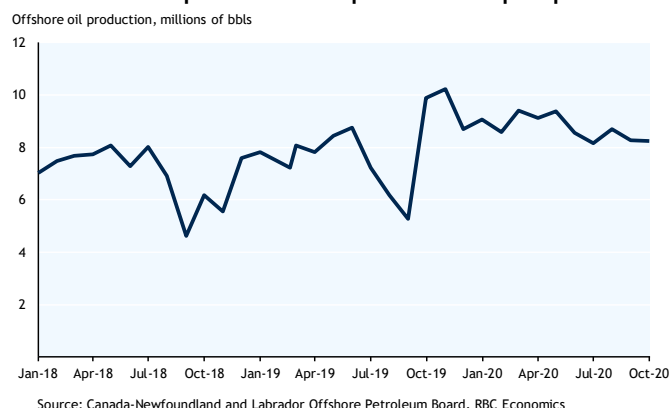
It now looks like the shock rocking Newfoundland and Labrador's economy in 2020 won't be quite as brutal as we anticipated earlier. We've "upgraded" our GDP growth forecast to -4.6% from -10.9% in the September Provincial Outlook report primarily because oil and metal mining production has been stronger than we expected. Still, things are tough in the province. And they are poised to improve more slowly than elsewhere in the country. We expect the boost the Newfoundland and Labrador economy will get from the eventual easing of pandemic restrictions will be partly offset by declining capital investment and shrinking population. These factors will restrain growth not only in 2021—when we project Newfoundland and Labrador to trail all other provinces with a rate of 2.8%—but also over the medium term, delaying full recovery.

The outlook for the province's resource sector is positive overall. Economic recovery worldwide will spur demand for commodities including oil and metals. Offshore oil production rose 14% in the first ten months of 2020. Metal exports have been mixed with nickel rising and iron ore declining slightly.

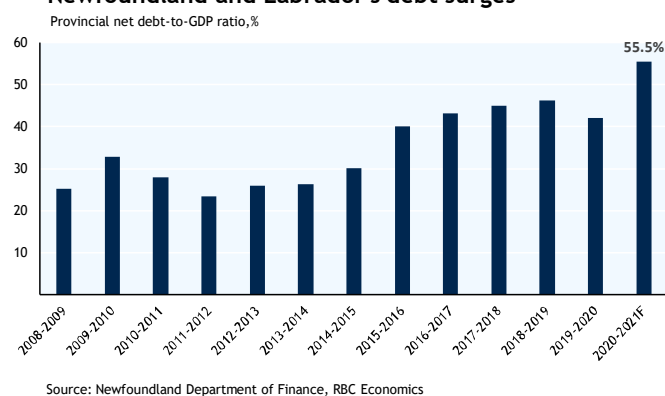
The labour market has been a pleasant surprise. Newfoundland and Labrador is the only province where employment has returned to pre-crisis levels by November 2020. The good news ends there, though. We expect momentum to stall in part because major construction projects that employed thousands of people are reaching completion (e.g. the Muskrat Falls hydroelectric dam) while potential new ones are being cancelled (e.g. West White Rose offshore oil platform).

Compared to other provinces, the Newfoundland and Labrador government has more limited resources to stimulate its economy. It's in a very tight spot financially with a near-record deficit of \$1.8 billion in 2020-21 and the highest debt-to-GDP ratio among the provinces. A declining population poses a major challenge for both the short and long terms.

### NL offshore oil production is up in 2020 despite pandemic



### Newfoundland and Labrador's debt surges



### Newfoundland and Labrador forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	-3.5	4.0	-4.6	2.8	1.7
Nominal GDP	0.8	4.1	-9.4	6.7	5.2
Employment	0.5	0.6	-5.9	3.5	0.2
Unemployment Rate (%)	13.8	11.9	13.8	13.8	13.1
Retail Sales	-2.4	-0.2	0.9	3.9	0.6
Housing Starts (Thousands of Units)	1.1	0.9	0.8	0.7	0.6
Consumer Price Index	1.7	1.0	0.0	1.1	1.9

### 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	20F	21F	22F	19	20F	21F	22F	19	20F	21F	22F	19	20F	21F	22F	19	20F	21F	22F
N.&L.	4.0	-4.6	2.8	1.7	4.1	-9.4	6.7	5.2	0.6	-5.9	3.5	0.2	11.9	13.8	13.8	13.1	0.9	0.8	0.7	0.6	-0.2	0.9	3.9	0.6	1.0	0.0	1.1	1.9
P.E.I.	5.1	-3.7	4.2	3.8	7.0	-2.0	6.0	5.6	2.7	-2.5	4.2	2.0	8.8	10.6	9.4	9.2	1.5	1.1	1.0	1.0	3.9	0.8	8.0	3.5	1.2	0.1	1.2	2.0
N.S.	2.4	-4.4	4.3	4.1	3.8	-2.8	6.0	6.2	2.2	-4.4	5.7	1.7	7.2	9.5	7.7	7.3	4.7	4.4	4.1	4.3	2.5	-2.6	7.4	4.5	1.6	0.2	0.9	2.0
N.B.	1.2	-4.2	4.0	3.8	3.0	-2.5	5.6	5.8	0.8	-2.5	3.2	1.0	8.0	9.8	8.4	7.7	2.9	3.3	3.4	3.4	2.1	2.2	6.1	3.2	1.7	0.2	1.0	2.0
QUE.	2.7	-5.5	5.4	4.8	4.3	-3.6	7.0	6.5	1.8	-4.6	5.5	2.0	5.1	8.9	6.9	6.0	48.0	54.4	50.5	45.3	0.9	-1.2	9.6	3.7	2.1	0.7	1.0	1.9
ONT.	2.1	-5.6	5.5	5.0	3.8	-3.7	7.3	6.7	2.9	-4.9	5.8	1.9	5.6	9.5	7.7	6.0	69.0	83.2	77.5	75.5	2.3	-3.4	9.9	5.3	1.9	0.6	1.1	1.8
MAN.	0.6	-3.9	4.4	4.0	1.0	-2.0	6.2	5.9	0.9	-3.4	2.8	1.6	5.3	7.9	6.5	5.9	6.9	6.7	6.1	6.3	0.8	1.6	6.0	3.0	2.3	0.5	1.0	1.9
SASK.	-0.7	-4.7	4.7	4.2	0.1	-9.0	8.4	6.8	1.8	-4.8	3.7	1.8	5.4	8.2	6.6	5.9	2.4	3.0	3.1	3.4	0.3	-1.1	5.3	3.3	1.7	0.6	1.6	2.0
ALTA.	0.1	-8.3	4.5	4.3	2.7	-12.8	8.5	8.1	0.5	-7.1	4.3	2.5	6.9	11.4	9.6	7.2	27.3	22.9	22.5	23.8	-0.8	-3.7	5.2	4.2	1.7	1.1	0.8	1.9
B.C.	2.7	-5.3	5.1	5.2	4.4	-4.3	7.3	7.5	2.6	-6.1	6.3	2.1	4.7	8.9	6.7	5.6	44.9	36.1	34.5	36.3	0.6	1.4	7.8	4.9	2.3	0.7	0.8	1.8
CANADA	1.9	-5.8	5.0	4.8	3.6	-5.1	7.5	6.9	2.1	-5.1	5.6	1.6	5.7	9.6	7.6	6.1	209	216	203	200	1.2	-1.8	8.4	4.5	1.9	0.7	1.0	1.9

### 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	1.0	0.8	0.2	1.3	1.6	0.8	0.3	0.6	2.3
Employment rate (Nov 2020, %)	59.5	51.1	58.5	57.1	55.9	59.8	59.0	60.3	62.7	61.8	59.7
Discomfort index (inflation + unemp. rate, Oct 2020)	9.6	13.4	10.1	9.0	10.2	8.2	10.3	7.2	6.9	11.8	8.5
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	-5.3	5.1	5.2
Nominal GDP	2.8	5.2	7.0	4.9	4.4	-4.3	7.3	7.5
Employment	1.2	3.2	3.7	1.1	2.6	-6.1	6.3	2.1
Unemployment Rate (%)	6.2	6.0	5.1	4.7	4.7	8.9	6.7	5.6
Retail Sales	7.0	7.7	9.3	1.9	0.6	1.4	7.8	4.9
Housing Starts (Thousands of Units)	31.4	41.8	43.7	40.9	44.9	36.1	34.5	36.3
Consumer Price Index	1.1	1.9	2.1	2.7	2.3	0.7	0.8	1.8

### Alberta

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	-3.7	-3.5	4.5	1.9	0.1	-8.3	4.5	4.3
Nominal GDP	-14.0	-6.1	9.2	3.4	2.7	-12.8	8.5	8.1
Employment	1.2	-1.6	1.0	1.9	0.5	-7.1	4.3	2.5
Unemployment Rate (%)	6.0	8.1	7.8	6.6	6.9	11.4	9.6	7.2
Retail Sales	-4.0	-1.1	7.1	1.8	-0.8	-3.7	5.2	4.2
Housing Starts (Thousands of Units)	37.3	24.5	29.5	26.1	27.3	22.9	22.5	22.5
Consumer Price Index	1.2	1.1	1.5	2.5	1.7	1.1	0.8	1.9

### Saskatchewan

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	-0.8	-0.1	2.6	1.2	-0.7	-4.7	4.7	4.2
Nominal GDP	-3.9	-5.0	6.0	3.2	0.1	-9.0	8.4	6.8
Employment	0.5	-0.9	-0.2	0.4	1.8	-4.8	3.7	1.8
Unemployment Rate (%)	5.0	6.3	6.3	6.1	5.4	8.2	6.6	5.9
Retail Sales	-3.3	1.5	4.1	-0.5	0.3	-1.1	5.3	3.3
Housing Starts (Thousands of Units)	5.1	4.8	4.9	3.6	2.4	3.0	3.1	3.4
Consumer Price Index	1.6	1.1	1.7	2.3	1.7	0.6	1.6	2.0

### Manitoba

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	1.2	1.4	3.3	1.5	0.6	-3.9	4.4	4.0
Nominal GDP	2.5	2.1	5.9	2.5	1.0	-2.0	6.2	5.9
Employment	1.6	-0.4	1.7	0.6	0.9	-3.4	2.8	1.6
Unemployment Rate (%)	5.6	6.1	5.4	6.0	5.3	7.9	6.5	5.9
Retail Sales	1.3	3.7	7.8	2.2	0.8	1.6	6.0	3.0
Housing Starts (Thousands of Units)	5.5	5.3	7.5	7.4	6.9	6.7	6.1	6.3
Consumer Price Index	1.2	1.3	1.6	2.5	2.3	0.5	1.0	1.9

### Ontario

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	2.5	2.1	2.8	2.8	2.1	-5.6	5.5	5.0
Nominal GDP	4.6	4.0	4.3	4.1	3.8	-3.7	7.3	6.7
Employment	0.7	1.1	1.8	1.6	2.9	-4.9	5.8	1.9
Unemployment Rate (%)	6.8	6.5	6.0	5.6	5.6	9.5	7.7	6.0
Retail Sales	5.3	6.9	7.7	4.5	2.3	-3.4	9.9	5.3
Housing Starts (Thousands of Units)	70.2	75.0	79.1	78.7	69.0	83.2	77.5	75.5
Consumer Price Index	1.2	1.8	1.7	2.4	1.9	0.6	1.1	1.8



## 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	-5.5	5.4	4.8
Nominal GDP	2.9	3.0	4.9	5.4	4.3	-3.6	7.0	6.5
Employment	0.9	0.9	2.2	0.9	1.8	-4.6	5.5	2.0
Unemployment Rate (%)	7.6	7.1	6.1	5.5	5.1	8.9	6.9	6.0
Retail Sales	1.9	6.6	5.5	3.6	0.9	-1.2	9.6	3.7
Housing Starts (Thousands of Units)	37.9	38.9	46.5	46.9	48.0	54.4	50.5	45.3
Consumer Price Index	1.1	0.7	1.1	1.7	2.1	0.7	1.0	1.9

### New Brunswick

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	0.7	0.8	2.5	0.5	1.2	-4.2	4.0	3.8
Nominal GDP	3.1	2.6	4.4	3.6	3.0	-2.5	5.6	5.8
Employment	-0.6	-0.1	0.4	0.3	0.8	-2.5	3.2	1.0
Unemployment Rate (%)	9.8	9.6	8.1	8.0	8.0	9.8	8.4	7.7
Retail Sales	2.2	2.1	6.8	1.7	2.1	2.2	6.1	3.2
Housing Starts (Thousands of Units)	2.0	1.8	2.3	2.3	2.9	3.3	3.4	3.4
Consumer Price Index	0.5	2.2	2.3	2.2	1.7	0.2	1.0	2.0

### Nova Scotia

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	0.7	1.6	1.8	1.9	2.4	-4.4	4.3	4.1
Nominal GDP	2.2	2.2	4.1	3.6	3.8	-2.8	6.0	6.2
Employment	0.1	-0.4	0.6	1.5	2.2	-4.4	5.7	1.7
Unemployment Rate (%)	8.6	8.3	8.4	7.6	7.2	9.5	7.7	7.3
Retail Sales	0.2	4.7	7.8	0.2	2.5	-2.6	7.4	4.5
Housing Starts (Thousands of Units)	3.8	3.8	4.0	4.8	4.7	4.4	4.1	4.3
Consumer Price Index	0.4	1.2	1.1	2.2	1.6	0.2	0.9	2.0

### Prince Edward Island

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Real GDP	1.4	2.1	4.7	2.5	5.1	-3.7	4.2	3.8
Nominal GDP	3.9	4.7	6.5	3.6	7.0	-2.0	6.0	5.6
Employment	-1.2	-2.2	3.1	3.0	2.7	-2.5	4.2	2.0
Unemployment Rate (%)	10.5	10.8	9.8	9.4	8.8	10.6	9.4	9.2
Retail Sales	2.6	7.3	6.3	2.7	3.9	0.8	8.0	3.5
Housing Starts (Thousands of Units)	0.6	0.6	0.9	1.1	1.5	1.1	1.0	1.0
Consumer Price Index	-0.6	1.2	1.8	2.3	1.2	0.1	1.2	2.0

### 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	2.8	1.7
Nominal GDP	-9.2	1.1	6.9	0.8	4.1	-9.4	6.7	5.2
Employment	-1.0	-1.5	-1.5	0.5	0.6	-5.9	3.5	0.2
Unemployment Rate (%)	12.8	13.4	14.8	13.8	11.9	13.8	13.8	13.1
Retail Sales	0.7	0.4	2.4	-2.4	-0.2	0.9	3.9	0.6
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	0.0	1.1	1.9

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