ECONOMIC VIEWPOINT

Desjardins Provincial Outlook:

The Early Innings of Rate Relief

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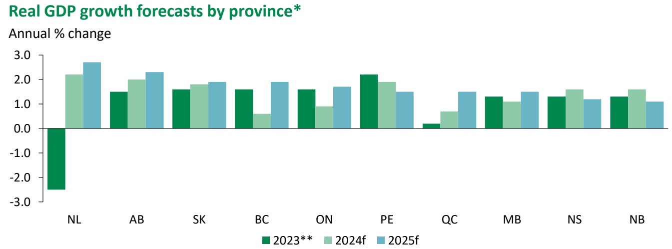
Highlights

- Although expectations of additional interest rate reductions underpin our forecast of stronger economic growth in 2025, the recovery is still in its early days. We remain convinced that growth will soften in most provinces during the quarters ahead, and a fuller rebound will only come closer to 2025 once more cuts have been made.
- We still expect interest-rate-sensitive provinces like Ontario and BC to feel the biggest pinch for the rest of 2024 before beginning relatively strong rebounds in 2025.
- By contrast, the oil-producing provinces will continue to benefit from rising commodity output and comparatively low household debt (graph 1).
- For all provinces, the recently released Statistics Canada demographic projections reinforce our long-held view that Ottawa's planned reduction in the non-permanent resident (NPR) population will weigh down economic growth. This could reasonably be expected to hit hardest in Ontario and BC, where population growth has been most reliant on NPRs.

Graph 1
Canada's Oil-Producing Provinces Are Still Expected to Lead the Pack

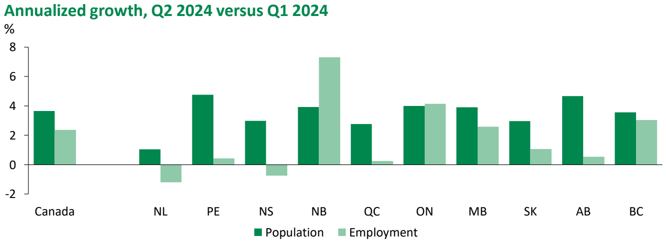


* Consistent with June 2024 Desjardins Economic and Financial Outlook. The next Quebec update will be released on August 22, 2024
** Based on preliminary estimates of GDP by industry at basic prices. f: forecast
Statistics Canada and Desjardins Economic Studies

Forecast Overview

The June and July interest rate cuts were met with a sigh of relief across Canada's provinces. Though Canada's economy has so far skirted a recession, there's no doubt that households and businesses have been feeling the pain. We've highlighted many times before that several key economic indicators—including GDP, retail spending and employment—have been growing but not keeping up with decades-high population advances. For job creation, that trend continued in Q2 2024 (graph 2).

Graph 2
Employment Continued to Lag Population Growth in Q2



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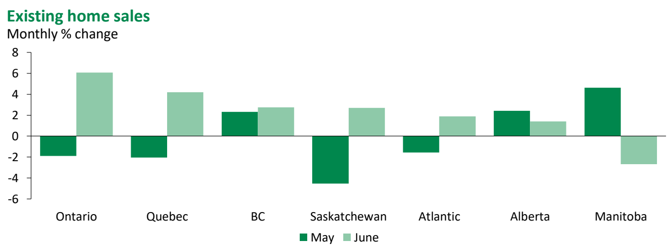
Although expectations of additional cuts underpin our forecast of stronger economic growth in 2025, the recovery is still in its early days. In most cases, the most recent major economic data points we have are for June, the same month in which the first cut occurred. Although we saw a broad-based increase in home sales activity in that month (graph 3), the possibility of volatility in the coming months—as sales, listings, and prices adjust to lower rates—remains. And it's typical for the housing market to react first to changes in monetary policy: It takes more time for the full effects of interest-rate decisions to impact the broader economy. Accordingly, we remain convinced that growth will soften in most provinces during the quarters ahead, and a fuller rebound will only come closer to 2025 once more cuts have been made.

Graph 3
Home Sales Made Broad-Based Gains in the Month of the First Rate Cut

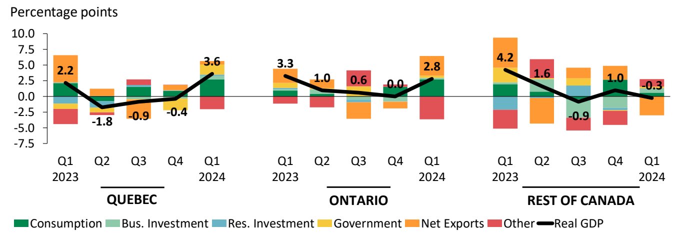


Canadian Real Estate Association and Desjardins Economic Studies

Because per-person growth has continued to falter and the Bank of Canada has cut rates twice, as expected, since our last report, our provincial economic forecast has not changed materially. We still project that interest-rate-sensitive provinces like Ontario and BC will feel the biggest pinch for the rest of 2024 before beginning relatively strong rebounds in 2025. The oil-producing provinces will continue to benefit from rising commodity output and comparatively low household debt. That said, early figures suggest slowing oil production in Alberta and scaled-back lumber production in BC have weighed down international trade in the first quarter. In Quebec, the end of public sector work stoppages was followed by a surge in government spending in Q1, as anticipated (graph 4). That strong start boosts the topline growth rate we've penciled in for La Belle Province this year.

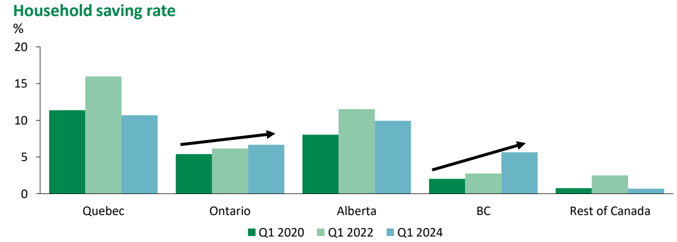
Even though borrowing costs will be lower next year than they are now, many mortgage holders who entered the market in 2020 and 2021 will still be renewing at much higher rates. Again, we suspect the biggest economic drags will come from Ontario and BC, where households are the most indebted and housing affordability is the most stretched. In fact, household savings in both of those provinces have grown since rates began to rise (graph 5), suggesting consumers there are already disproportionately scaling back spending to prepare for future rate shocks.

Graph 4
The Government Helped Drive Quebec's Strong Rebound at the Start of 2024



Statistics Canada, Institut de la Statitique du Québec, Ontario Ministry of Finance, and Desjardins Economic Studies

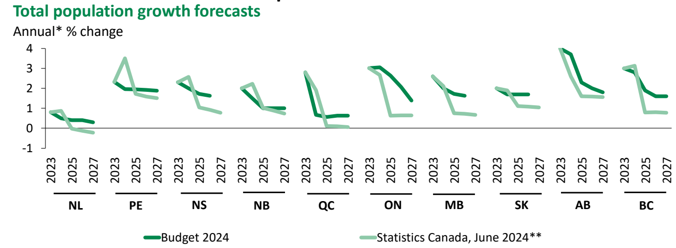
Graph 5
Rising Savings in Ontario and BC Suggest Mortgage Holders Are Preparing for Payment Shock at Renewal



Statistics Canada and Desjardins Economic Studies

The latest Statistics Canada demographic projections reinforce our long-held view that Ottawa's planned reduction in the NPR population will weigh down economic growth in all provinces. Our recent work showed that this effect could weaken the economies and bottom lines of all provinces in fiscal year 2024–25. This year, the cutback in temporary immigration could reasonably be expected to hit hardest in Ontario and BC, where population growth has been most reliant on NPRs. But our updated projections suggest that the drag could last well beyond this year (graph 6).

Graph 6
New Statistics Canada Projections Suggest Much Weaker Population Growth than the Provinces Expect



* 2023 corresponds to 2022–23 and so on. ** Using M1 scenario
Statistics Canada, provincial budget documents and Desjardins Economic Studies

Provincial Summaries

Newfoundland and Labrador (NL) still has among the best economic prospects of any province. For staple oil production, the Terra Nova offshore oilfield continues to ramp up following its 2020–23 closure. The smaller White Rose field is undergoing maintenance work, but completion of a capacity upgrade expected later in 2024 could support stronger gains next year and beyond. Upward revisions to forecasts of oil, base and precious metals prices are also good news for industry profitability in the province. And NL is among the least housing-oriented provincial economies in Canada. The principal challenge for the province is its oldest-in-the-nation population, whose healthcare demands are bumping up against ambitious plans for spending restraint.

Prince Edward Island (PE) also continues to look relatively good. Factors expected to support comparatively strong growth in the economy this year and next include increases to infrastructure spending plans and population gains that are less exposed to downside risk than elsewhere in Canada. Likely in response to those effects, residential construction activity has surged in 2024. Meanwhile the Island has outperformed in job creation, hours worked, wages and salaries, retail sales, and international trade, which shows it is off to a good start versus most other provinces.

We would argue that population growth is the biggest question mark for **Nova Scotia**'s (NS) economy. Pandemic-era movement from other parts of Canada, which was made possible by telework, is now diminishing: The province has seen its net interprovincial migration fall dramatically over the past year and a half. If this trend continues, it could amplify any drag on headcount gains caused by the NPR reduction. Still, NS remains the East Coast's hub for high-wage services—which have continued to drive above-average job creation in 2024—and is the region's most diversified economy. That should support its draw to newcomers going forward. The key manufacturing sector—anchored by tire production, paper products and food packaging—also contributed to early-2024 sales and export momentum.

Despite a middling start to 2024 for several economic indicators, the advantages we previously identified for **New Brunswick** (NB) remain. Its households are the least indebted in Canada and housing-oriented sectors account for a small share of GDP. Housing is also relatively affordable. As such, it's less exposed than most provinces to the lingering effects of interest rate hikes already completed. Relatively strong public finances also offer fiscal flexibility and room to offer economic support should it prove necessary. And expectations that crude prices will remain strong over the next two years are good news for provincial exports, as is our forecast for higher US homebuilding in 2025. Less optimistically, NB's 2024 budget penciled in only modest private sector investment gains over the next two years, though there's upside associated with projects related to its climate and energy transition goals.

After a few months of volatility due to the healthcare and education sector strikes, **Quebec**'s (QC) economy is showing signs of recovery. Real GDP rallied as expected and advanced at an annualized rate of 3.6% in the first quarter of 2024. In this context, we are confident that our forecast for Quebec bucks the national trend, as we expect moderate GDP growth over the next few quarters. Consumer spending bounced back in the first quarter of 2024 while the savings rate is holding above 10%, thanks to the strong increase in personal disposable income. This gain was fuelled by wage growth: Paycheques are swelling because of sticky inflation, collective bargaining agreements and companies' desire to retain their employees. Outsized support from the government's pocketbook also gives Quebec households a fiscal buffer until interest rates fall more meaningfully. Also, the recovery in the province's housing market is great news. Weaker-than-average population growth in Quebec has probably held back stronger growth over the last few years, but conservative government forecasts for headcount gains suggest relatively little downside risk from Ottawa's planned NPR cut.

Ontario's (ON) economy surpassed the national expansion in Q1, but we're skeptical that this can continue in the quarters ahead. The province's households are some of the most indebted in Canada, likely leaving them particularly exposed to the lagged effects of the 2022–2023 interest rate hikes in the months ahead, and to the 2025–26 wave of mortgage renewals. Despite its resilience in the past couple of years, homebuilding in our largest province will be hit especially hard by a range of headwinds, and residential construction plays an outsized role in Ontario's economy. Wards Automotive forecasts a more than 10% decline in auto production this year, which could exacerbate a weak trade outlook created by a softening US economy. And of course, recent population growth has been very dependent on NPRs and therefore faces significant risk from Ottawa's planned reduction in temporary migrants in 2025 and beyond.

Most of **Manitoba**'s (MB) key economic indicators have not started the year particularly strong, but we continue to anticipate relatively stable and above-average growth in the Keystone Province. A broad industrial base—which includes mining, financial services and various kinds of manufacturing—gives Manitoba a perennial advantage and protects it from the ups and downs of any one sector. To wit, though early-year seeding numbers somewhat disappointed in the key agricultural sector, robust shipments of pharmaceutical manufacturing, food processing, and oil and gas extraction have helped to fill the void. Moreover, Manitoba's housing market is also relatively affordable and doesn't play an outsized role in driving economic growth.

Our forecast for **Saskatchewan** (SK) remains one of the best of any province. Ongoing work on the multibillion-dollar phase 1 of the Jansen potash mine—the largest project in the province's history—anchors that view as it should continue to help offset the drag from higher interest rates in the quarters ahead. Moreover, a particularly tight labour market limits the scope for job losses in the coming months and rising uranium production should complement steady oil output gains. Final data for the 2023-2024 fiscal year, which ended March 31, has set the province up to outperform the projections set out in its 2024 budget.

We also still think **Alberta** (AB) has some of the best near-term growth prospects of any province. Though it's slowed somewhat of late, oil production is on an uptrend that's expected to persist. The Trans Mountain Pipeline Expansion (TMX) is now in service, supplying needed export capacity for the sector and supporting Alberta oil prices. Population growth remains the strongest of any jurisdiction in Canada, providing a tailwind to the real estate market, but housing affordability remains much better in Wild Rose Country than in the other three large provinces. NPR cuts present downside risk in this respect, as they do across the country, but Alberta is relatively unexposed to this effect. Although agricultural exports to China were down at the start of 2024, the export-intensive provincial manufacturing sector finds itself in a sweet spot with still-strong oil prices and a competitive Canadian dollar.

By contrast, our outlook for **BC** remains relatively modest. Canada's westernmost province continues to have the highest level of household indebtedness and exposure to housing-related sectors of any jurisdiction in the country. Accordingly, retail sales and employment continue to underperform. Non-residential business investment also fell in Q1 relative to the same period last year, perhaps due to a slowdown in activity on the LNG Canada natural gas pipeline project. Since our last outlook, some forestry companies have cut back lumber production in response to weaker-than-anticipated pricing, low inventories and weather-related delivery disruptions. That appears to have slightly moderated shipping activity at the Port of Vancouver in the spring and early summer. However, increased government spending plans announced in the 2024 provincial budget should give the economy a boost, even though BC is still expected to maintain one of the lowest public debt burdens in Canada.

SUMMARY FORECAST TABLE

TABLE 1
Canada: Major economic indicators by province*

	2020	2021	2022	2023**	2024f	2025f
% CHANGE (UNLESS OTHERWISE INDICATED)						
Real GDP growth – Canada	**-5.0**	**5.3**	**3.8**	**1.2**	**1.0**	**1.8**
Newfoundland and Labrador	-4.8	1.0	-1.7	-2.5	2.2	2.7
Prince Edward Island	-3.0	8.4	2.9	2.2	1.9	1.5
Nova Scotia	-4.5	5.9	2.9	1.3	1.6	1.2
New Brunswick	-3.6	5.3	1.1	1.3	1.6	1.1
Quebec	-4.7	6.7	2.5	0.0	0.7	1.5
Ontario	-4.5	5.4	3.9	1.2	0.9	1.7
Manitoba	-4.1	1.3	3.3	1.3	1.1	1.5
Saskatchewan	-4.3	-0.7	6.0	1.6	1.8	1.9
Alberta	-7.8	4.6	5.0	1.5	2.0	2.3
British Columbia	-3.1	7.1	3.8	1.6	0.6	1.9
Nominal GDP growth – Canada	**-4.0**	**13.4**	**11.8**	**2.8**	**3.4**	**3.1**
Newfoundland and Labrador	-10.2	18.5	6.8	-4.9	5.3	2.9
Prince Edward Island	0.3	14.9	9.3	3.2	3.5	3.5
Nova Scotia	-1.4	10.0	7.1	2.1	3.4	3.2
New Brunswick	-1.8	10.9	7.4	1.9	3.4	3.1
Quebec	-1.8	11.6	8.4	3.7	3.6	3.4
Ontario	-2.1	9.8	9.2	4.4	2.6	3.7
Manitoba	-2.2	9.2	8.6	2.1	3.0	2.6
Saskatchewan	-8.0	13.9	29.2	-0.5	4.8	1.4
Alberta	-14.4	24.9	22.0	-0.6	5.4	1.8
British Columbia	-0.5	15.8	11.0	2.6	2.7	3.4
Total inflation rate – Canada	**0.7**	**3.4**	**6.8**	**3.9**	**2.5**	**2.1**
Newfoundland and Labrador	0.2	3.7	6.4	3.3	2.3	2.2
Prince Edward Island	0.0	5.1	8.9	2.9	2.1	1.7
Nova Scotia	0.3	4.1	7.5	4.0	2.8	2.4
New Brunswick	0.2	3.8	7.3	3.5	2.2	2.0
Quebec	0.8	3.8	6.7	4.5	2.7	2.3
Ontario	0.6	3.5	6.8	3.8	2.5	2.0
Manitoba	0.5	3.2	7.9	3.6	0.8	2.1
Saskatchewan	0.6	2.6	6.6	3.9	1.4	2.1
Alberta	1.1	3.2	6.5	3.3	3.2	2.4
British Columbia	0.8	2.8	6.9	4.0	2.5	2.1
Employment growth – Canada	**-5.6**	**5.0**	**4.0**	**2.4**	**1.6**	**1.6**
Newfoundland and Labrador	-6.4	3.6	4.3	1.7	3.2	1.6
Prince Edward Island	-3.5	4.2	5.3	5.7	3.5	1.3
Nova Scotia	-4.6	5.6	3.6	2.7	3.4	1.2
New Brunswick	-3.0	3.2	2.7	3.4	2.9	1.2
Quebec	-5.4	4.3	3.0	2.4	0.9	2.1
Ontario	-5.4	5.2	4.6	2.4	1.2	1.2
Manitoba	-4.3	3.7	3.2	2.5	2.2	1.7
Saskatchewan	-5.0	2.6	3.5	1.8	1.6	1.9
Alberta	-7.0	5.5	5.2	3.6	2.6	2.0
British Columbia	-6.2	6.2	3.1	1.6	2.4	1.4
Unemployment rate – Canada	**9.7**	**7.5**	**5.3**	**5.4**	**6.3**	**6.4**
Newfoundland and Labrador	14.5	13.1	11.2	9.9	9.7	9.0
Prince Edward Island	10.7	9.9	7.5	7.4	7.4	7.5
Nova Scotia	9.9	8.6	6.6	6.4	6.4	6.6
New Brunswick	10.3	9.1	7.2	6.6	7.5	7.6
Quebec	8.9	6.1	4.3	4.4	5.3	5.8
Ontario	9.8	8.1	5.6	5.7	6.8	7.1
Manitoba	8.2	6.4	4.5	4.8	5.1	4.9
Saskatchewan	8.3	6.5	4.7	4.8	5.6	5.5
Alberta	11.4	8.5	5.8	5.9	7.1	6.8
British Columbia	9.1	6.5	4.6	5.2	5.5	5.5

* Consistent with June 2024 Desjardins Economic and Financial Outlook. The next Quebec update will be released on August 22, 2024.
** Based on preliminary estimates of GDP by industry at basic prices (except for QC and ON). f: forecasts
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