

Economics

# PROVINCIAL FORECAST

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## Provincial economic outlook: An unequal slowing

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This year will be a story of slowing growth across the country, but not all slowdowns are created equal, and Canada’s provinces will exemplify that. Rather than being about which province comes out on top, however, it will more be about which provinces look the least bad.

Debt-burdened households in Ontario and BC, where a large share of activity is tied to the housing market, will see the slowest growth, along with Quebec. Activity in Quebec will be limited by generally weaker population growth than other provinces and entering the year on softer footing given strikes in the public sector. The Atlantic provinces will look less bad,

where population growth has been robust. And towards the end of the year, commodity-producing provinces should receive a lift from signs of stronger commodity prices and a recovery in demand as interest rates are expected to be falling globally (Table 1).

### Searching for momentum

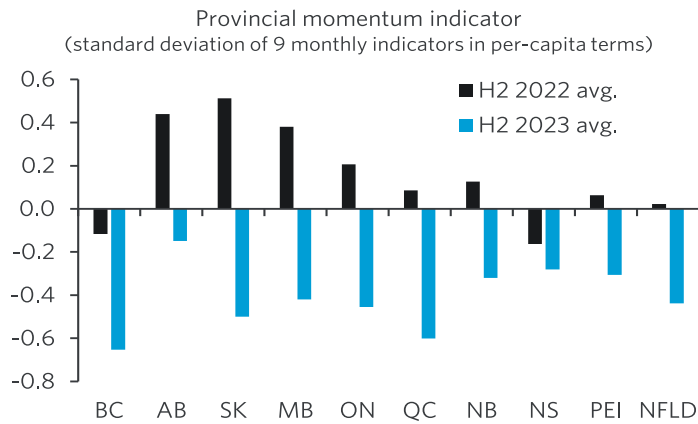
Our provincial GDP forecasts have most economies avoiding an outright recession, but provinces will look worse off in per-capita terms. CIBC’s provincial momentum indicator tracks

**Table 1: Provincial forecast**

Province	Real GDP (Y/Y % chg)				Nominal GDP (Y/Y % change)				Unemployment rate (%)			
	2022A	2023F	2024F	2025F	2022A	2023F	2024F	2025F	2022A	2023A	2024F	2025F
British Columbia	3.8	0.6	0.4	1.8	11.0	2.6	2.3	4.1	4.6	5.1	5.7	5.6
Alberta	5.0	2.1	1.5	2.5	22.0	0.1	7.0	4.5	5.8	5.9	6.3	6.0
Saskatchewan	6.0	1.9	1.3	2.0	29.2	0.4	5.8	4.0	4.7	4.8	5.3	5.2
Manitoba	3.3	1.1	1.0	1.8	8.6	3.0	3.0	3.9	4.5	4.8	4.9	4.7
Ontario	3.9	1.3	0.3	1.5	9.2	3.4	2.2	3.8	5.6	5.6	6.5	6.2
Québec	2.5	0.5	0.4	1.7	8.4	2.7	2.5	3.9	4.3	4.4	5.2	5.1
New Brunswick	1.1	1.0	1.1	1.7	7.4	2.9	3.1	3.8	7.2	6.6	7.0	6.7
Nova Scotia	2.9	1.2	1.1	1.9	7.1	3.1	3.0	4.0	6.6	6.3	7.0	6.6
Prince Edward Island	2.9	1.3	1.0	1.9	9.3	3.2	3.0	4.0	7.5	7.4	8.2	7.8
Newfoundland and Labrador	-1.7	0.9	1.8	1.4	6.8	-0.6	5.8	3.5	11.2	9.9	10.6	10.2
Canada	3.8	1.1	0.6	1.8	11.8	2.4	3.3	4.0	5.3	5.4	6.1	5.8

Source: Statistics Canada, CIBC

**Chart 1: Provinces swung into below-trend growth in 2023**



Source: Statistics Canada, CMHC, CIBC

changes in nine monthly indicators relative to historical norms and on a per-capita basis to provide a sense of how much activity is running above or below its typical pace (Chart 1). It's clear that 2023 was a bleak year for economic prospects across the country, as activity moved from being above trend at the end of 2022 for most provinces, to operating well below trend by the second half of 2023.

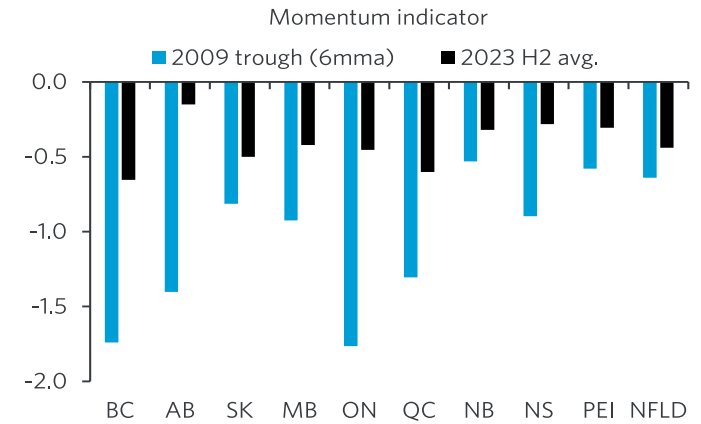
Quebec has been hit with a particularly sharp deceleration, with the economy recording two consecutive negative quarters of GDP in 2023, suggesting that it entered recessionary territory, although that masked a climb in domestic demand in Q3. Some of the hit to activity in the Prairies was tied to one-off dents from droughts and wildfires, which impacted exports, and although that leaves room for some recovery in 2024 if those aren't repeated, the deterioration in global demand will be a limiting factor. The cooling seen in BC and Ontario owes largely to constrained housing market activity and the impact of mortgage renewals on consumption, with an added negative for Ontario coming from the supply chain impacts tied to the auto sector strike in the US, and weakness in BC compounded by the port strike.

It's not all doom and gloom, however, as the lows reached in 2023 for the momentum indicator are less negative than those seen during the 2008/09 (Chart 2). There has been some improvement in recent months relative to the 2023 lows, which likely captures the bounce in activity tied to the end of several key events – the BC port strike, the wildfires in Alberta, the closure of the St. Lawrence Seaway, and the auto worker strikes in the US, as well as an atypically mild start to the winter. Still, the fading of those factors are one-offs that don't preclude a deterioration in activity in the first half of the year.

## Trouble in Canada's most populous provinces

Quebec's economic woes are broad-based, with business investment slowing, homebuilding weakening markedly, and inventory investment easing off, along with government spending, while inflation is generally more elevated there versus

**Chart 2: Momentum indicator not flashing recessionary signals**

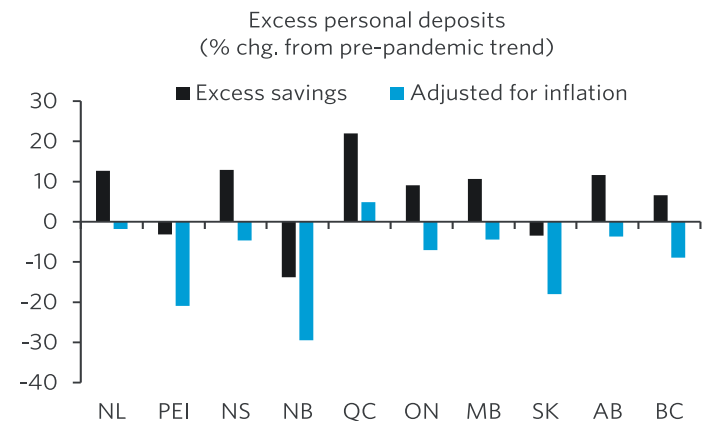


Source: Statistics Canada, CMHC, CIBC

other provinces. The province's housing starts plummeted by 32% in 2023, relative to an 8% retrenchment at the national level. While inflation has been slowing, there was a stronger inflation push in Quebec than other provinces, with weaker immigration perhaps a source of labour market tightness and the resulting pressure on wages. Since 2021, annual wage growth for permanent employees in Quebec averaged a percentage point above national wage growth until mid-2023, and the pass through is apparent in the consumer price index (ex. shelter), which topped all other provinces in the pace of increase since 2019. Adding to the inflation fires was spending ammunition from provincial government transfers to households. And while it appears that households still have a savings cushion, it's mostly gone when accounting for inflation (Chart 3).

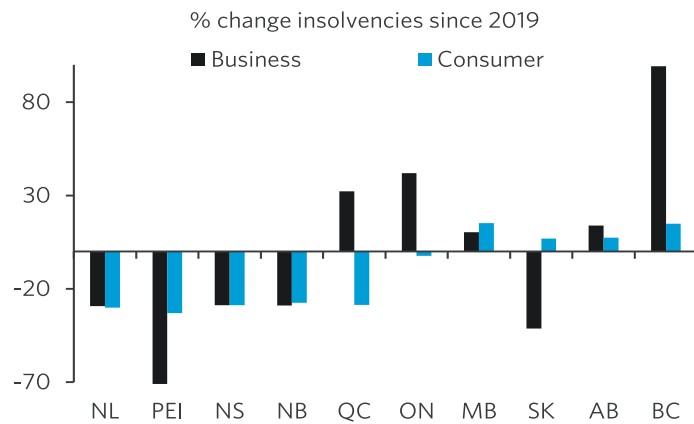
Excess savings are completely exhausted in BC and Ontario when adjusting for inflation, and that's translating into weak

**Chart 3: Excess savings drained when accounting for inflation**



Source: Statistics Canada, CIBC

**Chart 4: Businesses feeling the squeeze, portending labour market deterioration**

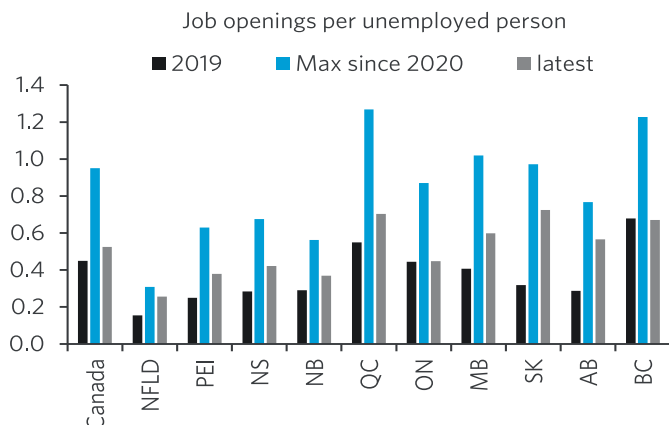


Source: Statistics Canada, CIBC

demand for businesses. Those provinces are seeing the highest increases in business bankruptcies since pre-pandemic (Chart 4), reflecting the squeeze from higher mortgage rates for households that are the most stretched by debt-to-income ratios across the country. Apart from Atlantic provinces, business insolvencies have generally seen a more adverse turn than those for households, but the latter could be impacted if weaker business finances translates into a further softening in hiring or increased layoffs in 2024.

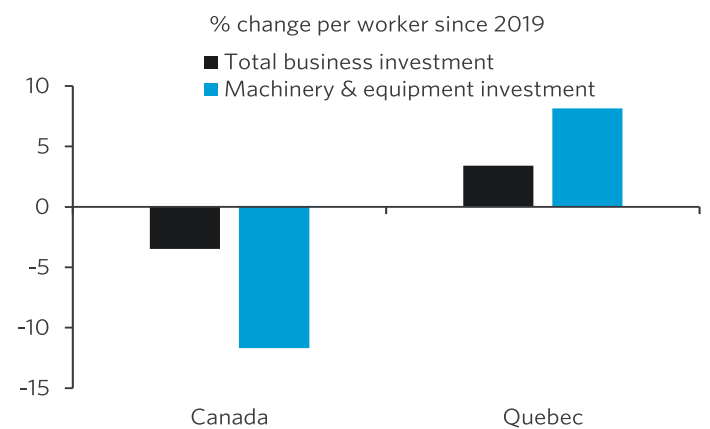
In BC and Ontario, the percentage of mortgages in arrears is roughly in line with 2019 peaks, which was a time when financial stress was just starting to spread amidst a slowdown in growth, but the mortgage market is being protected to a degree by the safety cushion built into regulatory changes that were introduced over the last decade. In BC, the recent news of a potential new LNG facility would be a boon to growth there, but regulatory hurdles mean that won't show up as a boost to growth over our forecast horizon, with exports not likely to start until 2028.

**Chart 5: Elevated job openings per unemployed in many provinces still**



Source: Statistics Canada, CIBC

**Chart 6: Businesses investing more in Quebec**



Source: Statistics Canada, CIBC

Looking at labour markets, all provinces except for Ontario and BC are still experiencing tighter labour markets than pre-pandemic, as they are on the elevated end of the ratio of job openings to unemployed (Chart 5). Notably, Quebec has seen slower population growth than other provinces, and has a tight labour market. That might be inducing a side benefit, as the province's labour shortage may be one reason why it has seen a better trend for business investment in machinery and equipment per worker, which can sometimes be used as a substitute for labour inputs (Chart 6), although the strength tapered off over the past year. While we expect to see a pullback in business investment in early 2024, the extra capital spending in Quebec in recent years will work to fuel room for more non-inflationary growth in subsequent years.

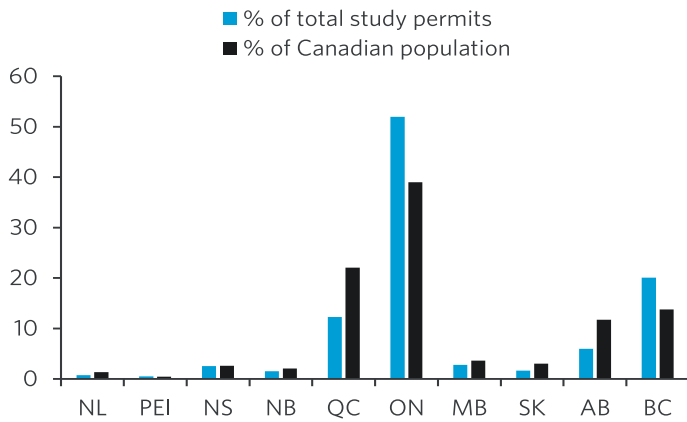
## Studying the impact of study permit caps

The housing market and related spending categories are set to rebound towards the end of 2024 as demand recovers with interest rate cuts, but 2025 will bring a new set of challenges and triumphs, with the introduction of international study permit caps impacting BC and Ontario the most. Ontario and BC, along with PEI, are the only provinces that account for a larger share of international study permits than their share of the national population (Chart 7). With a more limited number of study permits to be doled out based on provinces' shares of the national population, the reduction in the number of permits for Ontario and BC would represent the equivalent of 0.8% and 1.0% of their populations respectively (Chart 8). While that will work to ease the housing shortage and contain rent inflation, it may also cut into aggregate demand growth.

## Commodity producers to see a turning point by year end

Canada's oil producers received good news recently, with the Trans Mountain pipeline expansion expected to start operating in the second quarter of 2024. The economic impact is projected to total 1.0% of Alberta's GDP, but that will be spread

Chart 7: Ontario, BC, PEI stand to lose study permits next year

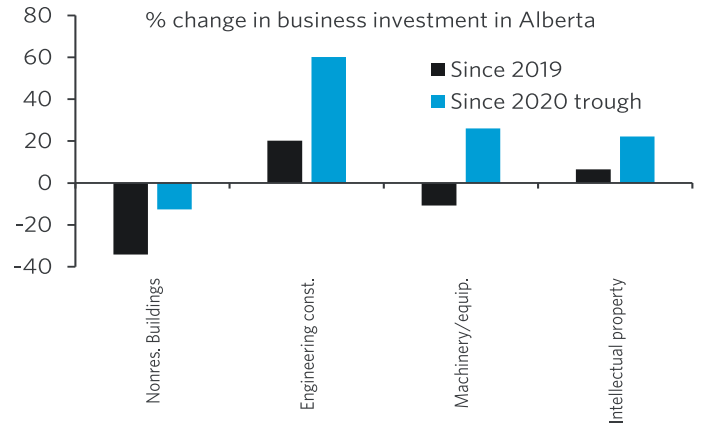


Source: Statistics Canada, CIBC

out over several years. The province has already benefitted from business investment tied to oil sector activity, with investment in engineering construction rebounding strongly from Covid lows and now sitting 20% above pre-pandemic levels (Chart 9). For 2024 alone, while production has been edging higher, the total income flows to the province’s producers and the provincial government will be held back by the lid on oil prices tied to slower global growth, as OPEC+ production constraints and the demand pop from the refilling of the US Strategic Petroleum Reserve are already priced in at this point.

By 2025, however, Alberta is poised to top the leaderboard for economic growth as global demand for commodities strengthens, with strong inter-provincial migration to the province another contributing factor to the expected rebound.

Chart 9: Business investment gains in AB



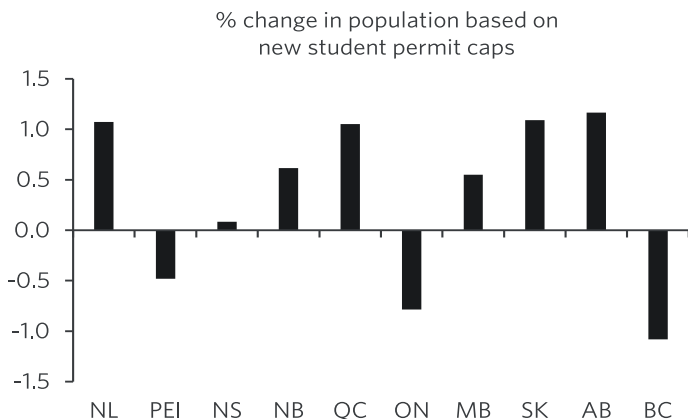
Source: Statistics Canada, CIBC

That better global backdrop could also show up in a similar turning point for other cyclically-sensitive resource prices.

## Rate cuts to the rescue in H2

While economic prospects will be looking up by 2025, growth is likely to be hard to find in the first half of this year. That need not tip into an outright recession, however, as we expect the Bank of Canada to trim interest rates by 125bps this year, with the first 25bp cut expected in June. Rate cut expectations should provide some reassurance to provincial governments as budget season approaches, since fiscal room to cushion the growth slowdown is limited, particularly in Canada’s most populous provinces.

Chart 8: Potential population changes based on study permit quotas



Source: Statistics Canada, CIBC

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