Economics

PROVINCIAL FORECAST

October 16, 2024

Who has the most room to run?

by **Andrew Grantham** andrew.grantham@cibc.com and **Katherine Judge** katherine.judge@cibc.com

Across the Canadian economy, there seems to be plenty of room for growth to pick up without inflation accelerating in a worrying manner. However, for some provinces that room to run is more obvious than others. Those where housing activity and consumer spending have suffered the most in this period of high interest rates (including Ontario) should at least see a partial recovery, while areas with the most labour market slack (including Alberta) will hopefully be able to find productive ways to use that spare capacity.

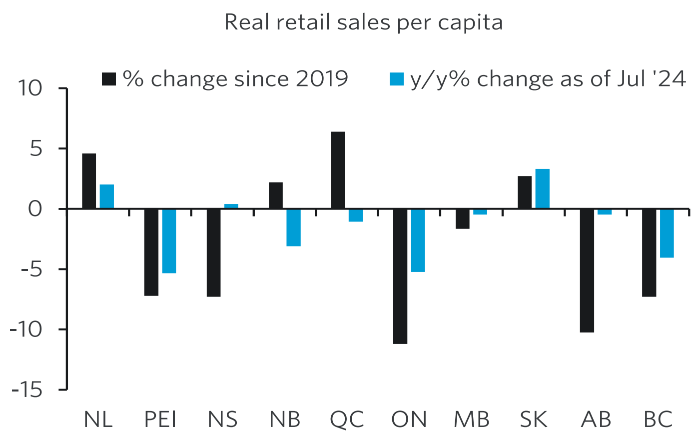
What goes down...

Many provinces will be hoping that what went down during the period of high interest rates comes back up again now that rates are headed lower. Ontario, Alberta and BC are among the provinces that have seen the sharpest declines in retail sales volumes on a per capita basis, which is perhaps unsurprising as households in these provinces have the highest debt levels relative to income. Interestingly, after outperforming during most of the pandemic and post-pandemic period, spending in New Brunswick and Quebec seems to have waned over the past year (Chart 1).

Housing activity is of course one of the most sensitive areas to interest rates, although here some provinces' room to run is less clear. This is particularly the case for Alberta, where unit home sales even on a per capita basis have consistently trended above pre-pandemic levels and other provinces (Chart 2). In contrast, Ontario and Quebec have seen very sluggish home sales, and so there appears to be plenty of room for that area of the economy to pick up.

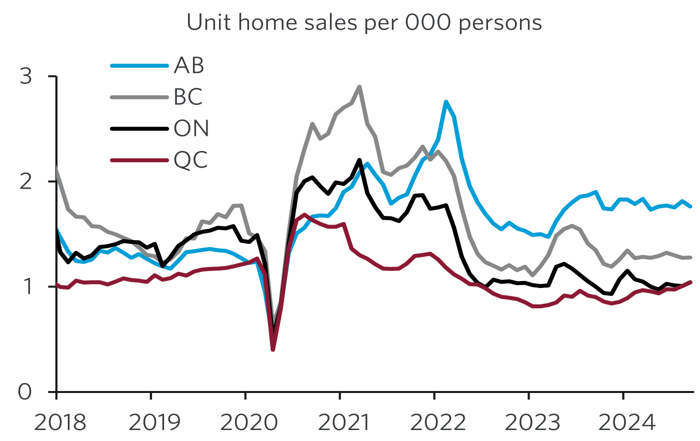
One possible reason for Alberta's strong resale activity could point to another potential growth opportunity, however. While the province's housing stock relative to its population has always been lower than others, likely due to demographic factors, it has fallen more than other areas in recent years (Chart 3). This stems from the strong influx of newcomers into the province (both from outside Canada and from other provinces) and presents an obvious potential to drive growth through homebuilding.

Chart 1: Debt-burdened provinces have seen weakest per-capita spending



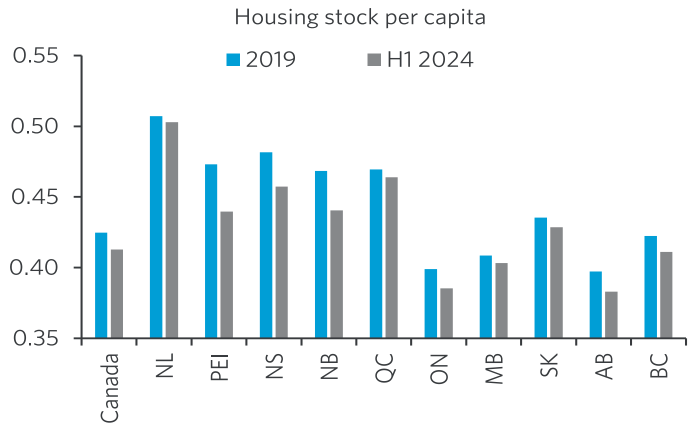
Source: Statistics Canada, CIBC

Chart 2: Housing activity has room to pick up in Ontario and Quebec



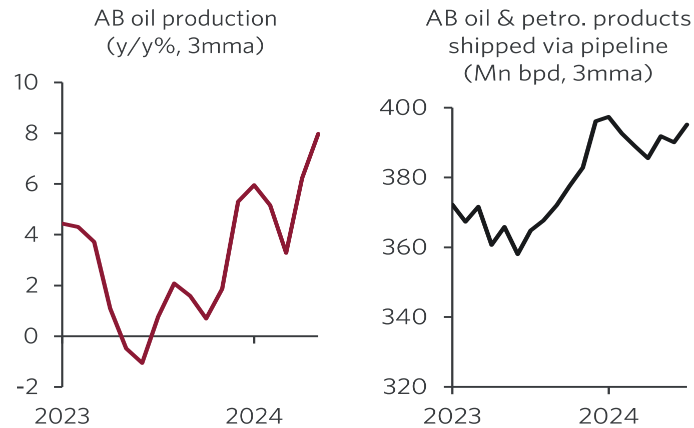
Source: CREA, Statistics Canada, CIBC

Chart 3: Housing stock lower relative to the population



Source: CMHC, Statistics Canada, CIBC

Chart 5: Oil production up as TMX began operating (l), but weak global demand holding back shipments (r)



Source: Statistics Canada, CIBC

Even though housing starts have already accelerated in Alberta (in contrast to the trend seen elsewhere), it would still take almost two years at the current pace to offset the years of underbuilding (Chart 4). There is also an obvious need to accelerate the pace of homebuilding in Ontario, as well as the Atlantic provinces, in order to just bring the housing stock back to its pre-pandemic level relative to the population.

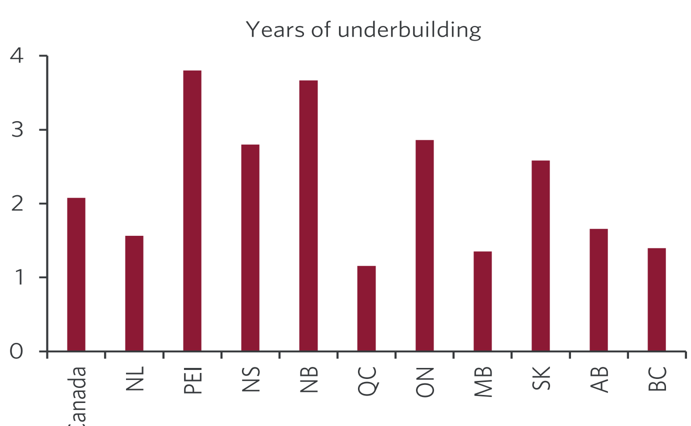
Alberta's oil sector has already received a boost from the TMX pipeline, which began operating in Q2 2024, and further gains could be made ahead. Employment in the oil sector stands 18% above year-ago levels, and oil and gas extraction GDP for Canada as a whole was 6% above year-ago levels as of Q2, with production rising strongly since H2 2023 on anticipation of the pipeline's completion (Chart 5, left). However, oil volumes shipped via pipeline from Alberta have only recovered to their late 2023 peak levels (Chart 5, right), with the jump in production since then largely going into inventories, as global demand has remained sluggish.

Lackluster demand will only be a temporary roadblock, however, as global central bank rate cuts will be well underway by 2025, boosting demand for oil, and Alberta producers will also benefit from a tighter WCS-WTI spread. However, the addition of extra pipeline capacity has done little to spur new investments in the sector, as engineering construction investment was 7% below year-ago levels as of Q2 (Chart 6), a signal that the province may have to rely on other industries for growth in the long run.

Who's hiring?

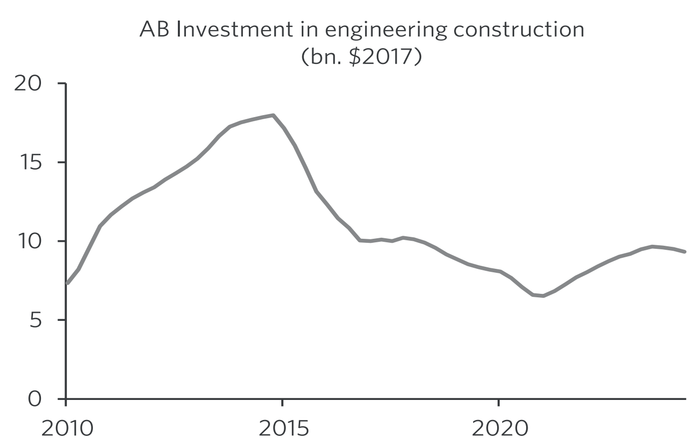
Across the country, labour markets have shifted markedly from very tight conditions a couple of years ago to generally loose ones today. In part this has been due to the surge in population seen in many areas, which will slow markedly ahead thanks to new regulations for non-permanent residents. The areas of the country that saw the largest growth in this cohort (including Ontario and BC) will likely see the biggest decelerations (Chart 7).

Chart 4: Several years needed to catch up on underbuilding of homes



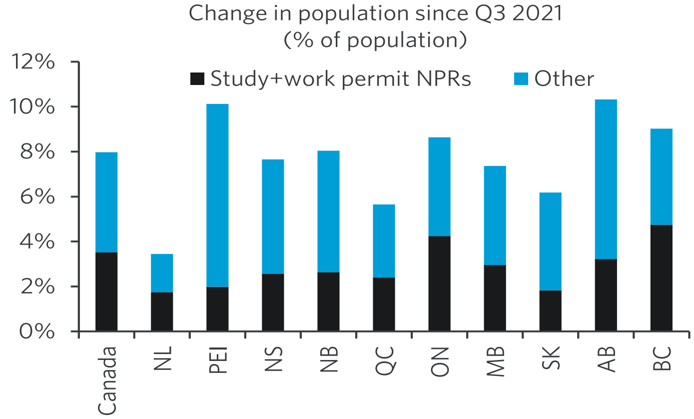
Source: CMHC, Statistics Canada, CIBC

Chart 6: Lackluster investment in Alberta's oil sector limits long-run growth prospects



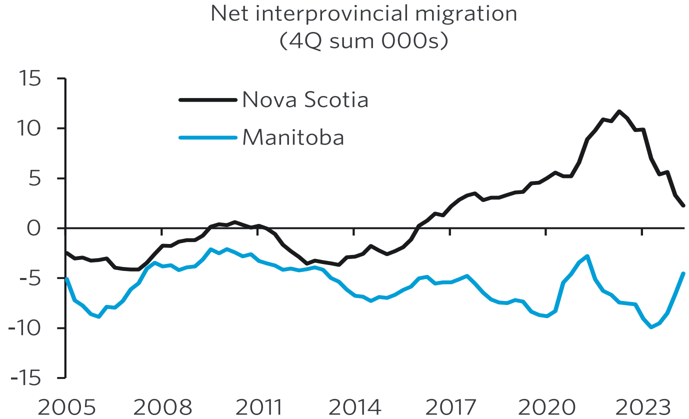
Source: Statistics Canada, CIBC

Chart 7: Ontario and BC to see the biggest slowdown from limits on NPRs



Source: Statistics Canada, CIBC

Chart 9: Interprovincial migration down sharply in Nova Scotia



Source: Statistics Canada, CIBC

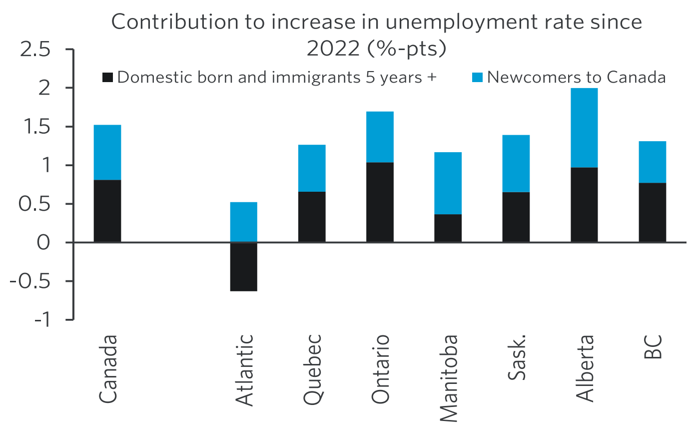
However, as we have shown for Canada as a whole, the labour market's woes cannot be entirely blamed on the sharp influx of newcomers into the country being unable to find jobs. This is true across most provinces as well, albeit to differing degrees. While Alberta, for example, has seen the sharpest rise in unemployment relative to 2022, around half has been due to newcomers into the country. In contrast, Ontario has seen a slightly smaller increase on aggregate, but a larger rise in joblessness among domestic born and immigrants who have been in Canada for more than 5 years (Chart 8).

While we would hope that both Ontario and Alberta have equal success in using this excess labour supply in the future, if newcomers into the country don't match quite as well in terms of skills, then it may take a bit longer for the slack to be absorbed in Alberta. In contrast, Atlantic Canada has seen little to no increase in unemployment rates since 2022, largely because the jobless rate of the domestic-born population and longer-term immigrants has continued to trend down.

A comparative lack of slack in the labour market could make it harder for provinces in Atlantic Canada to keep up in terms of growth rates ahead. For Nova Scotia, another previous source of labour force growth seems to finally be fading. Interprovincial migration into the province, which surged during the pandemic and then continued afterwards, has slowed dramatically in recent quarters and over the past year has actually been weaker than in 2019 (Chart 9). That will restrict potential growth relative to recent years. Manitoba continues to see outward migration, keeping the labour market relatively tight despite some evidence of lacklustre economic growth.

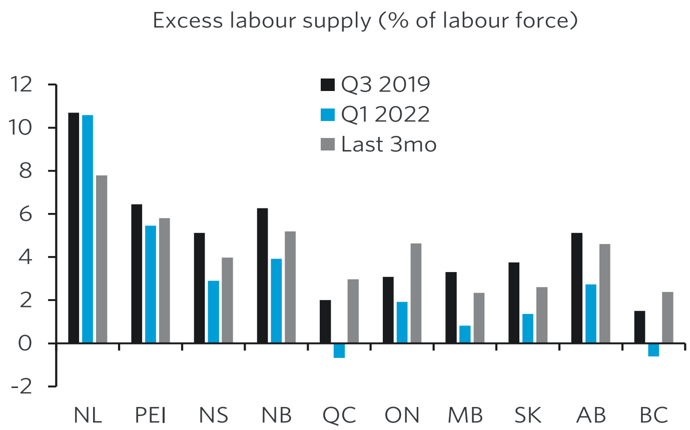
Indeed, in terms of total demand (employment plus job vacancies) relative to supply, Manitoba now has the tightest labour market out of any province (Chart 10). In contrast, on this measure as well, Ontario's labour market is much looser than in was in 2019, suggesting there's plenty of space for labour demand and wider economic growth to accelerate before running into a constraint from a shortage of workers.

Chart 8: Unemployment increase not just a result of newcomers



Source: Statistics Canada, CIBC

Chart 10: Varying degrees of labour market slack



Source: Statistics Canada, CIBC

Who has the most room to run?

As interest rates come down and labour market slack is absorbed, there is plenty of room for growth to accelerate across the country, particularly by 2026. That room is most obvious in Ontario where per capita spending and housing activity has been weakest, and labour market slack has built up more than in other areas. Because of that, by 2026, Ontario should be leading the pack in terms of GDP growth (table). Alberta, where labour market slack has been greatest, and BC, where consumer spending and housing activity have more room to build, should also see solid growth.

In contrast, provinces in Atlantic Canada are likely to see less of a pick up and potentially below-average growth by 2026. This is largely a product of their own success, as these provinces have seen less build up of slack, but partly also a reflection of the expected slowdown in immigration ahead. While lower interest rates should benefit all provinces, some will benefit more than others.

Provincial forecast tables

Table 1: Real GDP (Y/Y % chg)

Province	2023E	2024F	2025F	2026F
British Columbia	1.6	0.8	1.7	2.8
Alberta	1.5	2.2	2.5	2.9
Saskatchewan	1.6	2.0	1.8	2.4
Manitoba	1.3	1.3	1.6	2.3
Ontario	1.6	0.7	1.5	3.0
Québec	0.2	0.8	1.9	2.5
New Brunswick	1.3	1.5	1.7	2.1
Nova Scotia	1.3	1.7	1.8	2.2
Prince Edward Island	2.2	2.5	2.1	2.5
Newfoundland and Labrador	-2.5	3.5	2.1	2.3
Canada	1.2	1.1	1.8	2.7

Table 2: Nominal GDP growth (Y/Y % change)

2023E	2024F	2025F	2026F
4.1	3.3	4.0	5.0
-1.0	5.7	4.2	6.4
-0.5	5.5	3.5	5.4
3.8	3.8	3.7	4.4
4.3	3.3	3.8	5.2
3.0	3.4	4.1	4.7
3.8	4.0	3.8	4.2
3.8	4.1	3.9	4.3
4.7	5.0	4.2	4.7
-4.5	7.5	3.8	5.3
2.8	3.9	3.9	5.2

Table 3: Unemployment rate (%)

2023A	2024F	2025F	2026F
5.1	5.5	5.5	5.0
5.9	7.1	7.1	6.3
4.8	5.4	5.3	4.8
4.8	5.1	5.3	4.9
5.6	6.8	6.8	6.2
4.4	5.5	5.6	5.1
6.6	7.0	7.0	6.7
6.3	6.6	6.9	6.4
7.4	7.8	8.2	7.8
9.9	10.0	9.7	9.5
5.4	6.3	6.4	5.8

Source: Statistics Canada, CMHC, CIBC

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
Bloomberg @ CIBC

economics.cibccm.com