A Wind of Change Is Blowing.

NATIONAL OVERVIEW

This year got off to a weak start, with the economy contracting in January and posting essentially no growth in February. The lacklustre start to 2015 can be blamed almost entirely on the slide in oil prices, as capital expenditures and support activities for mining and oil and gas extraction fell precipitously. Add in weaker consumer spending and still high levels of fiscal restraint, and we expect economic growth to weaken to an underwhelming 1.9 per cent in 2015, down from 2.4 per cent last year.

Business investment will be the weak spot for the Canadian economy in 2015. Oil prices have fallen from above US$107 a barrel in the summer of 2014 to under US$45 in the first months of 2015, stripping more than $30 billion from profits. The last time that oil prices saw this kind of decline was during the 2008–09 recession when they fell from a peak of $145 a barrel in July 2008 to a low of $30 in December. The following year, real business investment in the oil and gas sector fell by

At a Glance

- The Canadian economy did not perform well over the first few months of the year, but growth will pick up through the rest of 2015.
- A wind of change is blowing through the country, as economic growth will be the strongest in Central Canada, Manitoba, and British Columbia over the near term.
- Real GDP growth in Atlantic Canada is expected to pick up. The exception is Newfoundland and Labrador, where the economy is being hurt by a drop in investment.
- Deficits will remain a challenge for the majority of the provincial governments. Only British Columbia, Saskatchewan, Quebec and Prince Edward Island are projecting balanced budgets for 2015–16.
a whopping 40 per cent. Although the decline in investment is not expected to be as quick or as deep this time around, we do expect oil and gas firms to chop their capital budgets by almost one-third over the next two years. Given that investment in the oil and gas sector currently represents almost one-third of total business investment, the cuts will have a sizable impact on the overall economy.

Looking at the non-energy side, stronger U.S. demand is not expected to have much success in turning around business investment in Canada either. Despite solid growth in U.S.-destined exports over most of 2014, machinery and equipment investment in Canada failed to pick up even as the manufacturing sector neared full capacity. And given the substantial erosion in the value of the loonie (which makes imported machinery and equipment more expensive), we don’t expect to see a turnaround in 2015. Building construction is also expected to decline in the coming year as builders are scared off by the significant increases in commercial vacancy rates over the last year.

Despite big savings at the gas pump and federal tax cuts, real household spending is also expected to ease this year. Soft employment growth, weak wage gains, the high level of household debt, easing real estate markets, and the threat of job losses in oil-rich provinces will combine to take some of the steam out of real consumer spending in 2015. In addition, the economy is unlikely to get much of a boost from government spending. Even before the decline in oil prices, the federal and provincial governments were planning to maintain a significant degree of spending restraint. Now, with oil prices taking a bite out of revenue growth, an even greater level of restraint is expected.

The only area of the economy where we expect to see solid growth this year is the trade sector. The U.S. economy is accelerating, and with the Canadian dollar firmly grounded in the 80-cents-U.S. range, exports should see solid growth. However, excess capacity in the manufacturing sector remains limited, and that will begin to constrain export growth unless we begin to see stronger business investment. Given our projection of only modest economic growth, we expect the economy to add just 172,000 jobs this year—another poor performance after 2014, which saw the weakest increase since 2009. Job growth is expected to accelerate in 2016 with 218,000 new jobs created. This year, the unemployment rate will rise slightly to reach 6.8 per cent by the fourth quarter, before drifting back to 6.5 per cent by the end of next year.

PROVINCIAL OVERVIEW

With the Alberta and Saskatchewan economies hit hard by the plunge in oil prices and now running short of breath, other provinces are taking the baton and will lead the country in economic growth until the oil industry recovers. A wind of change is blowing through the country, as economic growth will be the strongest in Central Canada, Manitoba, and British Columbia. However, while some regions did see their economies improve to start the year, the overall Canadian economy’s performance was dismal. Weakness in the oil-producing provinces and a decline in exports hurt growth. But we see this as temporary. The expected stronger economic growth in the U.S. will help lift exports and economic growth over the near term. And the depreciation of the Canadian dollar will also help boost exports.

The outlook is more upbeat in Quebec and Ontario than it has been in years. While flagship sectors, such as auto assembly and aerospace, face stiff external competition, exports in general will benefit greatly from the weaker loonie and better U.S. performance. Manitoba’s economy is on a strong footing, as broad-based growth is forecast over the next two year. British Columbia is also in a good position to continue to do well. This year, it will lead the country with real GDP growth of 3.1 per cent. (See Chart 1.) The outlook for Atlantic Canada is a mixed bag. The region is not out of the woods yet, but sound growth is expected in three of the four provinces. The exception is Newfoundland and Labrador, which is feeling the contraction in capital spending from large projects.
Growth in oil-dependent provinces will remain weak this year and next. While oil prices have bottomed out, they remain well below break-even levels for many planned projects. Capital expenditures in the oil industry are not expected to turn around until sometime next year. Following a modest contraction this year, Alberta’s economy will pick up but will not see a return to the frenzied growth of recent years—at least, not over the medium term. A similar story is unfolding in neighbouring Saskatchewan.

We expect the Canadian economy as a whole to continue to make modest gains in 2016. Regionally, Manitoba will be the leader in real GDP growth, while the Ontario, Quebec, New Brunswick, and British Columbia economies are also forecast to advance more rapidly than the national average. (See Chart 2.)

**PROVINCIAL ASSUMPTIONS**

Newfoundland and Labrador’s economy is cooling. After years of being driven by fast-rising investment, Newfoundland and Labrador is struggling. This year, employment will drop for a second consecutive year. Retail sales growth has weakened, housing demand is waning, and capital expenditures on key projects are easing. In addition, the large correction in oil and other mineral prices has dampened the economic outlook. On the fiscal side, large budget shortfalls led to an increase in the harmonized sales tax and personal income taxes. Overall, we are forecasting the Newfoundland and Labrador economy to contract by 0.1 per cent in 2015 and 0.2 per cent in 2016.

The Prince Edward Island economy is performing well. Strength in key industries, such as the primary sector, manufacturing, construction, and the service sector in general, will help lift real GDP growth to 2.7 per cent in 2015, better than the national average. The economy will continue to benefit from the lower Canadian dollar and the expanding U.S. economy in 2016, when real GDP growth is expected to advance by 2.1 per cent.

The Nova Scotia economy is slowly improving. The gains over the next two years will be broad-based, coming from a number of key sectors. Real GDP advanced by 1.6 per cent in 2014, but that was due largely to natural gas production at the Deep Panuke offshore field. Construction is expected to perform well, as numerous projects (mainly in Halifax) bolster investment. The manufacturing sector will benefit from the better conditions south of the border and from work getting under way at the Halifax Shipyard on the building of Arctic patrol vessels. All in all, real GDP in Nova Scotia is expected to rise by 1.5 per cent in 2015 and 2.1 per cent in 2016.
The New Brunswick economy has gone through some difficult times. It has yet to recover fully from the 2008–09 downturn. But the future is finally looking brighter. There were job gains in the first few months of this year, and better times for manufacturing and the service sector will help boost overall economic growth over the near term. The mining sector will also provide a boost, as potash production increases and Trevali’s Caribou mine reopens. Overall real GDP is expected to advance by 2.3 per cent this year and 2.6 per cent in 2016.

The Quebec economy will put in a mixed but generally positive performance. We expect Quebec to enjoy the type of real GDP growth it saw in the early 2000s. Economic growth is forecast to accelerate to 2.2 per cent in 2015 to 2.6 per cent in 2016. That is a change from the last three years, when the province was able to generate only modest average annual growth of 1.3 per cent. While exports struggled to start the year, that was due mainly to temporary factors, and the export sector will combine with household consumption expenditures to drive the provincial economy forward. Still, some parts of the economy are not expected to contribute much to growth over the near term. The new housing market seems to have peaked, and so has the resale market. As well, the government is focused on balancing its books and is committed to holding increases in program spending to a minimum.

Ontario has not performed up to expectations, but the outlook for the province’s economy remains positive in the short term. The 20 per cent drop in the Canadian dollar and the stronger growth south of the border were expected to boost Ontario’s economy. But early data suggest that Ontario experienced weak or no growth in the first quarter of this year. Exports dropped due to maintenance shutdowns in the auto industry. And other key economic indicators also disappointed, as housing starts, retail sales, and employment retreated in the first months of the year. But some the weakness was due to temporary factors. The strength in the United States economy will trickle down to the Ontario economy over the rest of this year and in 2016. However, a recent announcement by General Motors that it will let go 1,000 workers at its Oshawa assembly plant at the end of this year weakens the manufacturing and exports prospects heading into 2016. Production at the plant will take a serious hit as assembly of the next-generation Camaro is moved to Michigan. Our forecast calls for the Ontario economy to grow by 2.6 per cent in 2015 but by a more restrained 2.3 per cent in 2016, placing Ontario around the middle of the pack among the provinces.

West of Ontario, Manitoba and British Columbia are expected to be growth leaders over the next two years. But weaker oil prices mean that the outlook for Saskatchewan is much weaker.

In Manitoba, the economy will be supported by strong growth in construction, a rebound in agriculture, and stable domestic demand. Manufacturing will continue to do relatively well as it benefits from strong demand for heavy-duty buses and for aerospace products. Real GDP will grow by 2.8 per cent in both 2015 and 2016.

Saskatchewan’s economy will feel the effects of the drop in oil-related economic activity this year. The oil sector directly accounts for a significant portion of the economy. The number of wells drilled was down during this past winter’s drilling season, and capital expenditures in the energy sector are not expected to pick up before 2017. However, no recession is expected, nor is the government expected to fall into deficit. The agriculture sector is expected to do relatively well, while prospects are positive for the non-oil-related segments of the mining sector. On the negative side, employment will contract and retail sales and housing starts will drop. We are expecting overall economic growth of 0.9 per cent for Saskatchewan this year and a stronger 2.1 per cent in 2016.

With the collapse in oil prices, the Alberta economy has shifted gear. Petroleum companies have cut back on their capital expenditures and payrolls. Some sectors have been left reeling. Support activities for mining and oil and gas extraction contracted significantly over the winter drilling season as rigging and drilling services retreated. Nevertheless, the blow to the Alberta economy will be more modest than during the 2008–09 global financial crisis and price shock. Housing starts remained at elevated levels in the first four months of this year. And outside the energy sector, the job market
seems to be holding up relatively well. Some of the job losses in the energy sector have likely been among the “fly in, fly out” workers that maintain their residency and spend most of their income in another province. However, given the severity of the decline in capital expenditures in the energy sector, we expect the Alberta economy to contract by 0.7 per cent in 2015. The outlook for the oil sector next year is for it to gradually improve, and the Alberta economy is expected to grow by a moderate 1.1 per cent in 2016.

While Saskatchewan and Alberta are grappling with weak economies, British Columbia is enjoying a period of strong economic growth. The province did well in 2014 and appears set to lead the country in economic growth this year. In fact, B.C. will be the only province with economic growth surpassing the 3 per cent mark in 2015. Real GDP growth of 3.1 per cent and 2.7 per cent is forecast over the next two years. Leading the way are manufacturing and many service industries. Solid demand in the housing market is adding to the finance, insurance, and real estate industry, while the strength in exports is fuelling the wholesale sector and transportation and warehousing.

**U.S. OUTLOOK**

The U.S. economy is set to expand at around a 3 per cent clip over the next two years, due in large part to the health of U.S. labour markets, which had languished following the devastating effects of the Great Recession. (See Chart 3.) Over the past 12 months, the U.S. economy has added more than 3 million jobs—the strongest growth since the height of the high-technology boom of the late 1990s and early 2000s. While this pace of job creation isn’t sustainable over the medium or long terms, we expect the economy to continue to generate new positions at a solid pace for the remainder of this year and into 2016. Also encouraging is that there are currently more than 5 million job openings—a record high—compared with 4 million a year ago.

Despite the strong job creation since 2010, wage growth has failed to materialize. In fact, since the end of the 2008–09 recession, wage growth has barely kept up with inflation. There are a number of factors behind this trend, including the large number of involuntary unemployed and underemployed. These workers still account for close to 2 per cent of the labour force—an unusually high share at this stage of an economic expansion. Also, a large portion of the new jobs generated over the past five years have been in low-paying service sector jobs, such as retail and caring for the elderly. While numerous high-paying jobs in the energy sector have been created by the fracking revolution, they have not been enough to offset the large number of minimum wage jobs generated since the end of the recession.

We expect wage gains to pick up over the near term, as the remaining slack in the labour market is quickly disappearing. In April, the U.S. unemployment rate dropped to 5.4 per cent. That will begin to put upward pressure on wages as employers try to outbid each other in an effort to entice a dwindling number of unemployed workers to join their firms.

A key factor that will keep job creation strong will be the strength in the housing market. While home construction has more than doubled since the end of the 2008–09 recession, the number of single- and
multi-family homes built last year was just slightly more than 1 million. That is not enough to meet demand—as evidenced by the rental vacancy rate, which recently hit a 25-year low. Also, the homeowner vacancy rate is once again close to its pre-recession lows. Builders will ramp up construction over the next two years to meet rising demand for housing. Housing starts are expected to rise from their current annual level of just over 1 million units to reach 1.85 million units by the end of 2016.

With the U.S. job market expected to perform exceptionally well and wage gains set to improve this year, real household spending is expected to rise by 3.8 per cent—the best performance since 2004. Consumers are in good financial shape to be able to increase their spending. Household debt has fallen substantially from its 2008 peak. On top of the near-record-low interest rates, interest payments required to service that debt are at an all-time low. And while we expect the Federal Reserve to begin increasing interest rates in the fall, most consumers have chosen to lock in their interest rates, thereby postponing the effects of rising rates. Furthermore, even though gasoline prices have risen from their lows in January, they still represent the equivalent of a massive tax cut for consumers, which should also fuel spending.

Although low energy prices will have a substantial impact on household spending, the recent surge in the value of the greenback will have a negative impact on corporate profits, trade, and, consequently, investment spending. Lower energy prices are also having a negative effect on spending on energy-related structures and equipment. While these categories account for only 6 per cent of total fixed investment spending, a drop of 20 to 30 per cent in energy-related investment will restrain total fixed investment spending over the near term. Capital spending is expected to increase by 3.5 per cent in 2015—just half the pace seen last year. As excess capacity narrows, business investment is expected to accelerate sharply in 2016, with growth of 5.1 per cent projected.

Not surprisingly, there are domestic and international downside risks to the current outlook. But, at this point, it would take a major catastrophic event to derail the U.S. expansion. On the domestic front, we expect the Fed to increase interest rates in the autumn in response mainly to rapidly tightening labour markets. However, the economy is currently on firm-enough ground to handle the modest 50-basis-point increase expected this year.

**MONETARY POLICY**

The consumer price index (CPI) is forecast to rise by only 1.3 per cent in 2015, weighed down by weak energy prices. Core inflation, which strips out the most volatile components of the CPI—including gasoline and fuel prices—has remained relatively strong during the last few months. In March, it rose 2.4 per cent, just above the midpoint of the Bank of Canada’s target zone for inflation. As real GDP growth slows in the first half of this year due to declining energy investment, capacity pressures will ease, taking some of the pressure off core inflation in the coming months. However, this effect will be offset by the rise in import prices caused by the recent depreciation of the Canadian dollar. As a result, core inflation will continue to be relatively strong, growing by 2.1 per cent for this year as a whole.

Due to the weakness in investment in new capital and the sluggish growth in real GDP last year, excess capacity in the economy continued to dissipate. Our measure of the output gap (which is the difference between Canada’s estimated potential and its actual output) fell to 1.4 per cent at the end of 2014. With the economy expected to struggle over the first half of this year, the output gap is forecast to increase slightly, but will then resume its downward trend. By the first half of 2016, the output gap is expected to be below 1 per cent. The decline in the output gap, along with the forecast rise in oil prices, means that inflation pressures will begin to brew early next year, putting pressure on the Bank of Canada to begin increasing interest rates. We believe the Bank of Canada will begin raising rates in March 2016, but that the rate increases will come at only a slow and gradual pace. (See Chart 4.)
FISCAL RESTRAINT

The economy is unlikely to get much of a boost from the government sector over the near term. For the past few years, the federal and most provincial governments have been focused on controlling spending growth as they struggled to eliminate their deficits. But the decline in oil prices is making it difficult for some governments to balance their books, as the impact of lower oil prices has slowed down growth in government revenue in oil-producing provinces, as well as for the federal government. Even before oil prices began to decline, the federal government was planning to cut spending this year and again in 2016. While the provinces were already committed to slowing their expenditure growth, even greater restraint is now expected in the oil-producing provinces. Despite weaker spending on goods and services, total public spending is set to improve over the next few years thanks to a modest increase in infrastructure investment. Real public consumption and investment spending is set to grow by a modest 0.7 per cent this year followed by an increase of 1.2 per cent in 2016.

The outlook for the federal government balance has changed substantially over the last few months. Oil prices are much lower than they were just a few months earlier when the federal government updated its fiscal outlook. Lower oil prices lead to weaker inflation, which, in turn, results in slower growth in nominal GDP. As nominal GDP is a broad measure of the government tax base, government revenues will be lower throughout the forecast period. Nonetheless, the federal government is well positioned to deal with the repercussions of lower oil prices on the fiscal balance. After years of cuts, expenditures have fallen significantly and, as a result, the federal government is expected to remain in the black despite the weaker revenue outlook.

While the outlook for the federal government’s finances remains positive, many provincial governments continue to face budgetary challenges. Even when oil prices were high, most provinces were planning for significant expenditure restraint in order to balance their books. We expect overall government spending on goods and services to rise by just 3.1 per cent this year. That is below last year’s already-restrained increase of 3.3 per cent. With the weakness in tax revenues and lower royalties, the combined provincial deficit for fiscal 2014–15 is now estimated at $20 billion, up from $13.7 billion the previous year. Given our projection for weak economic growth in 2015, the combined provincial deficit is unlikely to see any improvement this fiscal year.

NEWFOUNDLAND AND LABRADOR

LOWER INVESTMENT AND WEAKER COMMODITY PRICES DAMPEN OUTLOOK

The economic outlook for Newfoundland and Labrador over the next four years is subdued, as major projects will pass their peak investment levels and the matured offshore oil production fields will produce less oil. In addition to these project-cycle factors, Newfoundland and Labrador’s economy is facing a double whammy of low oil and metal prices. Brent, the benchmark price for North Sea crude oil, dropped more than 50 per cent from its peak last summer, and nickel, copper, and iron ore prices have all plummeted. Previous long-term expectations of a price recovery have been downgraded.

The weak outlook for commodity prices is having a negative impact on medium-term investment and production decisions, which will result in weaker economic growth over the near term. After contracting by 2.9 per cent last year due mainly to weakness in the
goods-producing industries, real GDP will contract by 0.1 per cent this year and 0.2 per cent in 2016—again due to weaker growth among the goods-producing industries. (See Chart 5.)

The labour market will continue to feel the effects of a weakening economy. After shedding 4,650 jobs last year, employment will decline again this year before stabilizing in 2016. Meanwhile, the unemployment rate will drop from 12.6 per cent in April this year to an average of 11.9 per cent in 2016 as the number of Newfoundlaners looking for work shrinks. With the labour market still struggling, household consumption will be anemic over the next two years and government revenues from personal income taxes will be lower. In addition to weaker personal income tax revenues, the provincial government is seeing its fair share of lower resource royalties as crude oil and metal prices plummet. This has left the provincial government with a whopping $1.1-billion deficit, thus limiting the government’s contribution to bottom-line economic growth.

It is not all doom and gloom. Manufacturing remains one of the brightest spots of the province’s economy. The Long Harbour hydromet facility has begun processing nickel, copper, and cobalt ore from the Voisey’s Bay mine. This will help offset some of the weakness in offshore oil production and the construction sector.

PRINCE EDWARD ISLAND

HARSH WINTER WEATHER NOT ENOUGH TO TAKE WIND OUT OF P.E.I.’S SAILS

As the Island’s famous lady’s slipper flowers have begun to bloom following the harsh winter weather, so too has the Island’s economy. This past winter saw a record snowfall that postponed the opening of lobster season and delayed the opening of the Northumberland Ferry from Nova Scotia—both of which are strong sources of economic growth for the province. Despite the hammering P.E.I. took from the weather this winter, key economic indicators are pointing to the Island having a strong year in 2015. Employment and household income are both expected to benefit from lower oil prices and a weaker Canadian dollar. The lower oil prices will make prices cheaper at the pump for consumers and the lower dollar will promote tourism to the Island and bolster the province’s export sector. A surge in housing starts this year will also strengthen residential investment substantially and support the construction sector over the near term. (See Chart 6.) All these signs point to a healthy economy on the Island over the next two years—putting the province ahead of the national average. Real GDP is expected to grow by 2.7 per cent this year and 2.1 per cent in 2016.
order to balance its books on schedule. Tight spending measures translate into weak growth in non-commercial services, such as education and health and social services, which puts a damper on overall economic growth. This lack of government contribution to growth makes the positive economic outlook for the Island that much more impressive. Thanks to the combination of a strong economy and tighter public spending, the province should come within reach of achieving its goal of fiscal balance in the 2015–16 fiscal year.

NOVA SCOTIA

ROBUST GAINS IN CONSTRUCTION AND MANUFACTURING

Nova Scotia will see decent economic growth over the next two years. Gains in construction and manufacturing, as well as in most of the service-sector industries, will help offset declines in natural gas production and lift real GDP by 1.5 per cent in 2015 and 2.1 per cent in 2016.

Construction will rebound strongly over the next two years, driven by several large-scale projects. The provincial construction industry will be busy with work on the Nova Centre and King’s Wharf projects in Halifax. In addition, housing starts will rebound this year and accelerate in 2016. Manufacturing will see strong growth over the next two years as well. Work on the Canadian navy shipbuilding contract is expected to start in the fall of 2015. In addition, the aerospace, motor vehicle parts, and biochemical industries are all looking to invest in the province and expand their production lines in order to satisfy growing international demand. As a result, manufacturing is forecast to expand 3.9 per cent in 2015 and 7.9 per cent in 2016.

Natural gas production will take away from bottom-line growth. (See Chart 7.) The Deep Panuke project is expected to produce roughly 50 per cent less than its original estimates due to water problems. It will become a seasonal operation that produces during the heating season. Combined with declining production at the mature Sable Island field, mineral fuel production will fall over the forecast period.

The service-sector will perform well. By the end of 2016, employment is expected to increase by 9,500 and the unemployment rate will fall to 8.3 per cent (from 8.9 per cent in 2014).

NEW BRUNSWICK

BETTER GROWTH IN THE NEAR TERM

New Brunswick’s economy is forecast to rebound over the next two years. Both the goods- and the service-producing industries are looking at better performances. Mining and construction, as well as manufacturing and other primary industries, are expected to do well, helping to lift overall real GDP by 2.3 per cent in 2015 and 2.6 per cent in 2016.

Production at the Picadilly potash mine is set to ramp up this year and next, propelling growth in non-metallic mining and quarrying to well above 20 per cent. Metal mining is set to benefit from the re-opening of Trevali’s Caribou mine. (The company expects to more than double its zinc production.) Manufacturing will enjoy a strong comeback, as the weaker Canadian dollar and stronger economic growth in the U.S. helps stimulate demand for New Brunswick-produced products. The forestry industry will post healthy gains thanks to the strength in the U.S. housing market and a 20 per cent increase in the annual allowable cut of softwood on
Crown land. In addition, J.D. Irving is investing more than $500 million to upgrade its mills across the province, providing a much-needed boost to the forestry industry. Construction will see strong growth this year and next. And housing starts are expected to turn the corner after struggling in recent years. (See Chart 8.)

The service-sector industries will see better growth this year and next. And New Brunswick’s labour market will pick up. Employment is forecast to increase by 7,100 by the end of 2016 (up 2 per cent from 2014). Stronger job growth will push the unemployment rate down from 9.9 per cent in 2014 to 9.4 per cent in 2016. In addition, household disposable income will see much stronger growth than in recent years. This will help stimulate consumer demand and help drive up retail sales in the province.

**QUEBEC**

**PESSIMISM DELAYING BUSINESS INVESTMENT**

In spite of the ongoing export recovery that will allow real GDP growth to rise from 1.4 per cent last year to 2.2 per cent this year and 2.6 per cent next year, businesses have been reluctant to invest. (See Chart 9.) The lower value of the Canadian dollar and the stronger U.S. economy will push Quebec’s exports of goods and services to a new high this year. This, in turn, will bolster the manufacturing industry, which will grow by 2.6 per cent in 2015. Despite their enviable position, businesses will invest less than last year, with non-residential construction investment falling 3.2 per cent and investment in machinery and equipment down 3.5 per cent.

With employment rebounding in 2015, consumers will once again lead the way when it comes to supporting growth. Lower gasoline prices will provide a boost to households’ disposable income and permit consumers to spend more. The weak link in the economy will be investment. As the results of our most recent business confidence survey show, the growing pessimism among firms is hurting investment intentions. Housing starts will also plunge this year, permitting only lacklustre growth of 0.3 per cent for the construction industry. With additional fiscal belt-tightening in the books, the public sector will provide little help. Quebec’s government remains committed to balancing its budget in 2015–16 by holding overall program spending increases to just 1.2 per cent, down from 2.1 per cent in 2014–15. Accordingly, there is downside risk to the outlook, especially if any large-scale mobilization of public sector unions disrupts the economy this fall as negotiations for new collective agreements take place.
ONTARIO

OUTLOOK REMAINS BRIGHT DESPITE SLOW START TO THIS YEAR

Reminiscent of last year, the economies of both Ontario and the U.S.—its largest trading partner—got off to a slow start in 2015. Preliminary data point to anemic growth in the first quarter, with near stagnation in consumption, exports, and investment. However, also similar to last year, the weakness will be temporary, as growth should pick up over the three final quarters. Real GDP is forecast to expand by 2.6 per cent in 2015 and 2.3 per cent in 2016.

Following strong spending growth toward the end of 2014, Ontario consumers took a breather early this year, as household spending contracted slightly, due largely to a drop in purchases of big-ticket items, such as motor vehicles. However, we remain optimistic about the coming quarters. Consumer confidence in the province continues to trend upward, which is generally supportive of continued expansion in consumer spending. Moreover, although spending on durable goods fell from its record highs in recent months, it remains well above its year-over-year level. As a result, consumer spending is projected to grow by a robust 2.6 per cent in 2015. Next year, growth is projected to slow to just 2.4 per cent.

Ontario’s exports have also disappointed so far. However, here too the weakness should be temporary. The small drop in exports was caused mainly by a temporary halt in production at motor vehicle plants in Windsor and Oakville that led to a large drop in vehicle exports. As these plants reopen, international exports will rebound. Fuelled by a depreciated dollar and a U.S. economy that, despite a hiccup in the first quarter, is still set to post robust growth this year, the province’s exports will post strong growth of 3.9 per cent this year and next. (See Chart 10.)

MANITOBA

BRIGHT DAYS AHEAD FOR MANITOBAN ECONOMY

Manitoba’s economy is expected to make solid gains this year and next, with the gains coming in all major sectors. Real GDP growth is expected to be 2.8 per cent in 2015 and again in 2016, when it will lead all provinces.

Construction projects continue to drive growth in the province, with output in the construction sector forecast to rise by 6.1 per cent this year and 9.5 per cent in 2016. The strong gains are coming thanks to increased investment in non-residential structures, residential investment, and infrastructure spending as work on the Bipole III Transmission Reliability Project and on the provincial government’s five-year infrastructure plan ramps up this year. (See Chart 11.)

Following a difficult 2014, the agriculture sector is set to make a comeback with 5 per cent growth this year. The transportation and warehousing sector is expected to perform well, with gains of 4.7 per cent this year and 3.9 per cent in 2016 thanks to the weaker Canadian dollar (relative to its U.S. counterpart), lower oil prices, and the clearing of grain shipment backlogs. Metal mining will also post solid growth, while growth in the manufacturing sector will remain healthy over the medium term.
The gains in the goods-producing industries will be matched by healthy growth in the services sector. And with the economy as a whole growing at a healthy pace, employment is expected to grow at an average annual pace of 1.6 per cent this year and next. That will pull the unemployment rate down from 5.5 per cent this past April to 5 per cent in 2016, where it will remain for the rest of the medium term. Increased household disposable income, thanks to the improving labour market and historically low interest rates, will help retail sales advance by 1.8 per cent in 2015 and 3.5 per cent in 2016.

**SASKATCHEWAN**

**URANIUM, POTASH, AND AGRICULTURE GAINS OFFSETTING OIL PRICE IMPACTS**

Saskatchewan’s economy is being hurt by the drop in oil prices, and it is expected to grow by a modest 0.9 per cent in 2015. Tempering the negative effects of lower oil revenues and capital spending are potash and metal mining and a rebounding agriculture sector. Saskatchewan’s economy will pick up again in 2016, with real GDP growth of 2.1 per cent.

The outlook for metal mining over the next few years is good. Rising global demand and higher prices for uranium will boost Saskatchewan exports of the valuable commodity. The outlook for potash production is also bright, thanks to the clearing of railway backlogs, mine expansions, and developments in Russia. On the downside, mineral fuel output is expected to contract 3.6 per cent in 2015, leading to an overall contraction of 2.6 per cent in mining output. Mineral fuel output is expected to be back in positive territory in 2016, helping the mining sector to post overall growth of 2.6 per cent.

Following a difficult 2014, agriculture is expected to make a comeback this year, with growth of 5.1 per cent. Manufacturing is expected to see moderate growth.

Growth in the services sector will moderate over the next two years. Although, employment is expected to contract by 0.2 per cent (a loss of 1,416 jobs), it is expected to recover in 2016 with growth of 0.7 per cent (or a gain of 4,205 jobs) and remain positive for the rest of the forecast period. (See Chart 12.) The unemployment rate will rise to 4.6 per cent this year and stay there in 2016, up from 3.8 per cent in 2014. Despite this increase, Saskatchewan’s unemployment rate will remain the lowest among the provinces.
ALBERTA

LOWER OIL PRICES SEND ALBERTA’S ECONOMY INTO TAILSPIN

After four decades of Progressive Conservative rule, Albertans voted the Tories out of power in the May 5 election and replaced them with the New Democrats. The new government is expected to usher in policy changes that could have significant ramifications for the provincial economy as Albertans continue to struggle with the impact of lower crude oil prices.

Crude oil prices dropped more than 50 per cent from their peak in the summer of 2014, prompting several oil firms to slash their planned investment. The steep reduction in oil-patch investment is evident in the number of oil drilling rigs in operation. Rig counts were down 44 per cent during this year’s crucial winter drilling season, compared with the same period a year ago. The job losses that accompany the reduction in investment will hurt the housing market, weaken migration trends, and batter the consumer sector. (See Chart 13.) Government revenues from individual and corporate income taxes and resource royalties will be under pressure this year.

Chart 13
Alberta’s Mining Workers Feeling Impact of Lower Crude Oil Prices
(mining employment, 000s)

Source: Statistics Canada.

The lower crude oil prices are sending Alberta’s economy into a tailspin, with real GDP forecast to contract 0.7 per cent this year. Though the dramatic drop in crude oil prices seems to have stabilized in recent weeks, a return to annual economic growth of over 4 per cent is not in the cards for Alberta.

The decline in oil prices is affecting not only the private sector. Over the past 10 years, the provincial government has derived, on average, 29 per cent of its revenues from the resource sector, notably in the form of oil and gas royalties. And with crude oil prices so low, the newly elected government is proposing to review a number of fiscal measures. Proposed measures for the newly elected government have not been included in our forecast, as details have yet to be announced.

It’s not all bad news for Albertans. Heavy investment in recent years has built a lot of capacity in the oil and gas sector, and that is paying dividends in the form of higher oil production. Though oil prices have dropped, non-conventional oil production continues to flow south to refineries along the Gulf Coast where demand for heavy oil remains high. And with import levels falling (due in part to the drop in machinery and equipment purchases associated with oil-patch development), net trade will remain a positive influence on the economy over the short term. Together, a positive net trade balance and more stable economic conditions will help lift real GDP by 1.1 per cent next year.

BRITISH COLUMBIA

THE LEADER

The British Columbia economy is expected to do well over the near term. Exports were up in the first months of the year and that should continue over the near term as the province’s main trading partners perform well. Exports of forestry products and building and packaging materials are up, as are exports of industrial machinery, equipment, and parts and electronic and electrical equipment. The housing markets (both new and resale) remain in good shape. (See Chart 14.) In fact, the resale market in Vancouver is the hottest in Canada, with solid demand and price increases so far this year. The British Columbia economy is building on the strength of 2014 and is expected to gain 3.1 per cent in 2015, making B.C. the only province to advance by more than 3 per cent this year. The economy will remain strong, with real GDP rising 2.7 per cent in 2016.
While the forecast is generally positive, there are uncertainties that present risks to the outlook. Job creation has been muted so far this year. And while it is still early, if labour demand does not improve over the summer months it could hurt consumer confidence and the domestic economy. There also remains considerable uncertainty surrounding the development of the province’s liquefied natural gas (LNG) industry and the billions of dollars in investment that are set to come with it. Lower LNG prices in the Asian markets have experts and companies concerned about the timing of these projects. A much-awaited decision by Petronas and its partners to move forward with their $36-billion Pacific Northwest LNG project is expected this year. And if that project does go ahead, it would be a game changer for British Columbia’s energy sector. The province has no fewer than 19 LNG proposed projects on the table, but many hurdles need to be cleared before any of the projects become reality.
Table 1—Key Economic Indicators: Provinces  
(Forecast Completed: May 7, 2015)

<table>
<thead>
<tr>
<th>Province</th>
<th>Gross domestic product at market prices ($ millions)</th>
<th>Gross domestic product at basic prices (2007 $ millions)</th>
<th>Employment (000s)</th>
<th>Unemployment rate (per cent)</th>
<th>Retail sales ($ millions)</th>
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<tbody>
<tr>
<td>Newfoundland and Labrador</td>
<td>34,870 32,782 34,822</td>
<td>26,924 26,887 26,838</td>
<td>238 226 226</td>
<td>12.0 12.5 11.9</td>
<td>8,889 8,975 9,140</td>
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<td>-2.9 -0.1 0.2</td>
<td>-1.9 -1.2 0.2</td>
<td>10.5 10.4 9.8</td>
<td>35 1.0 1.8</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>5,973 6,184 6,428</td>
<td>4,644 4,767 4,868</td>
<td>74 74 75</td>
<td>8.9 8.8 8.3</td>
<td>13,927 13,715 14,197</td>
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<td>-0.4 0.5 1.1</td>
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<td>34 20 35</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>40,573 41,826 43,338</td>
<td>33,480 33,997 34,705</td>
<td>448 451 467</td>
<td>9.9 9.8 9.4</td>
<td>11,538 11,762 12,236</td>
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<td>1.2 1.9 4.0</td>
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<tr>
<td>New Brunswick</td>
<td>32,270 33,477 34,949</td>
<td>26,063 26,664 27,370</td>
<td>354 356 361</td>
<td>7.8 7.4 7.3</td>
<td>108,233 110,830 114,957</td>
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<td>1.8 2.4 3.7</td>
<td>3.0 3.8 4.4</td>
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<tr>
<td>Quebec</td>
<td>373,752 388,100 405,139</td>
<td>311,824 318,689 326,971</td>
<td>4,056 4,102 4,149</td>
<td>7.3 6.7 6.6</td>
<td>176,877 183,305 188,876</td>
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<td>1.4 2.2 2.6</td>
<td>-0.1 1.1 1.1</td>
<td>5.1 3.6 3.6</td>
<td>18,050 18,368 19,003</td>
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<tr>
<td>Ontario</td>
<td>721,030 751,908 782,975</td>
<td>600,574 616,049 630,113</td>
<td>6,877 6,949 7,050</td>
<td>5.4 5.4 5.0</td>
<td>19,160 18,807 19,245</td>
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<td>2.3 2.6 2.3</td>
<td>0.8 1.0 1.5</td>
<td>4.4 1.8 3.5</td>
<td>176,877 183,305 188,876</td>
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<tr>
<td>Manitoba</td>
<td>63,098 65,690 69,007</td>
<td>52,874 54,332 55,867</td>
<td>627 638 647</td>
<td>7.4 6.7 7.3</td>
<td>18,050 18,368 19,003</td>
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<td>2.9 4.1 5.0</td>
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<td>4.4 1.8 3.5</td>
<td>19,160 18,807 19,245</td>
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<tr>
<td>Saskatchewan</td>
<td>86,136 83,702 88,721</td>
<td>60,095 60,626 61,904</td>
<td>571 569 574</td>
<td>3.8 4.6 4.6</td>
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<td>4.7 5.6 5.8</td>
<td>78,651 76,712 78,215</td>
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<tr>
<td>Alberta</td>
<td>366,567 346,687 399,211</td>
<td>305,522 303,479 306,766</td>
<td>2,274 2,288 2,293</td>
<td>4.7 5.6 5.8</td>
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<td>4.4 -0.7 1.1</td>
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<td>7.6 -2.5 2.0</td>
<td>78,651 76,712 78,215</td>
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<tr>
<td>British Columbia</td>
<td>241,252 251,740 262,834</td>
<td>203,335 209,649 215,303</td>
<td>2,278 2,308 2,345</td>
<td>6.1 5.8 5.7</td>
<td>66,333 72,436 75,677</td>
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<td>5.7 9.2 4.5</td>
<td>66,333 72,436 75,677</td>
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<tr>
<td>Canada</td>
<td>1,976,228 2,013,080 2,108,789</td>
<td>1,636,728 1,667,271 1,703,378</td>
<td>17,796 17,969 18,187</td>
<td>6.1 6.7 6.6</td>
<td>505,457 518,800 536,532</td>
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<td>4.4 1.9 4.8</td>
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<td>4.6 2.6 3.4</td>
<td>4.6 2.6 3.4</td>
</tr>
</tbody>
</table>

For each indicator, the first line is the level and the second line is the percentage change from the previous year. 
Shaded area represents forecast data. 
Sources: The Conference Board of Canada; Statistics Canada.
### Table 2—Key Economic Indicators: Provinces
(Forecast Completed: May 7, 2015)

<table>
<thead>
<tr>
<th></th>
<th>Gross domestic product at market prices—per capita ($ per person)</th>
<th>Gross domestic product at market prices—per capita (2007 $ per person)</th>
<th>Employment rate (per 1,000 people)</th>
<th>Household disposable income per capita ($ per person)</th>
<th>Primary household income per capita ($ per person)</th>
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<td>Newfoundland and Labrador</td>
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<td>62,342</td>
<td>66,128</td>
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<td>Prince Edward Island</td>
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<td>Quebec</td>
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<td>Saskatchewan</td>
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<td>1.4</td>
<td>0.7</td>
</tr>
</tbody>
</table>

For each indicator, the first line is the level and the second line is the percentage change from the previous year.

Shaded area represents forecast data.

Sources: The Conference Board of Canada; Statistics Canada.
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