Provincial Forecast

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Picking Up and Dusting Off

by Warren Lovely

Economics

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The dawn of a new decade is a natural time to reflect and project. Consider the decade that was "the zeros", a period of generally robust growth that gave way to a 9th inning collapse, characterized by a broad-based recession and severe job loss.

Recent weakness cut average real GDP growth for the decade to a rather pedestrian 2.1%, although the country still outperformed the US across a host of indicators (Table 1). But what is Canada, if not a collection of ten increasingly varied provinces? Regional divergence will remain a telling story in the years ahead, if less dramatically so in 2010. As provinces pick themselves up and dust themselves off, the march back to economic health will be at varied speeds.

Table 1

The Decade That Was; Resource Provinces Were Leaders in 2000s

Y/Y %	Real GDP	Nominal GDP	Employ-ment	Retail Sales
BC	2.4	4.5	1.8	4.0
Alta	2.9	8.4	2.6	6.6
Sask	1.9	6.2	1.0	5.9
Man	2.1	4.5	1.1	5.2
Ont	1.8	3.3	1.5	3.5
Qué	1.8	3.6	1.5	4.3
NB	1.7	3.5	1.2	3.6
NS	1.7	4.0	1.1	3.5
PEI	1.7	3.7	1.4	3.7
N&L	3.8	9.4	0.7	5.1
CDA	2.1	4.5	1.6	4.3
US	*1.9*	*4.3*	*0.2*	*3.0*

Notes: Compound annual growth rate, 2009 vs 1999; shading denotes growth rate above national average
Source: Statistics Canada

Resource provinces, in the West and East, will make their way back to the top of the growth charts this year and next. For 2010, inventory restocking will see Ontario beat the national average for the first time since the Canadian dollar began its appreciation in earnest. That resurgence risks proving temporary, however, as an overvalued C$ and a reversion to slower US growth weighs. Recent outperformance in Québec and the Maritimes likely won't be repeated, with solid, if unspectacular gains due in 2010-11.

Roller Coaster Ride for Resource Provinces

When it comes to economic growth, the "haves" and "have nots" can be defined by natural resource wealth. The resource rich provinces generally spent the last decade at the top of the growth charts. With the notable exception of Manitoba, those less levered to commodities chalked up below-average growth (Table 1).

With the good comes the bad, and the greater variability of resource provinces was on full display in 2009. CIBC's *Provincial Pulse*, a comprehensive indicator that mimics ***nominal*** GDP, shows 2009's weakness concentrated in the West (Chart 1). As for ***real*** GDP, commodity-based provinces occupied four of the bottom five growth spots in 2009.

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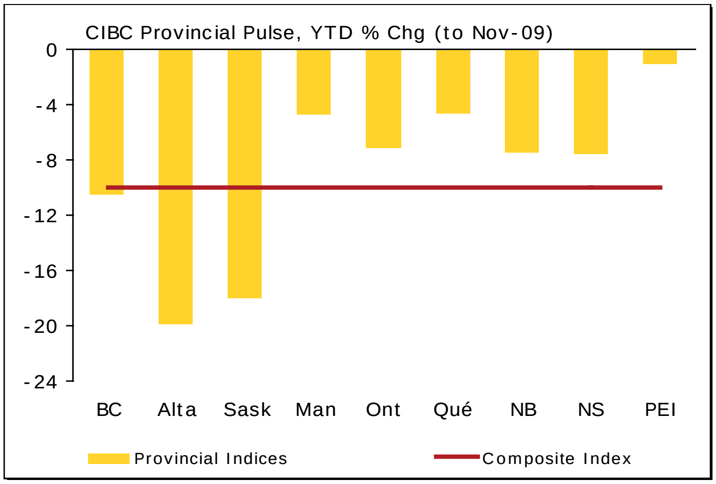
Chart 1

CIBC Provincial Pulse: Weakest in West



Source: CIBC

Table 2

Real GDP Performance: 2008-2011

Y/Y %	Actual 2008	CIBC Forecasts 2009	2010	2011
BC	0.0	-2.2	2.8	3.4
Alta	0.0	-2.6	2.4	4.2
Sask	4.2	-1.7	3.0	4.1
Man	2.0	-0.2	2.3	3.1
Ont	-0.5	-3.5	2.4	2.8
Qué	1.0	-1.4	2.2	2.7
NB	0.0	-0.7	2.2	2.8
NS	2.2	-0.4	2.1	2.6
PEI	0.5	-0.5	1.8	2.4
N&L	0.5	-3.5	2.6	3.3
CDA	0.4	-2.5	2.3	3.0
US	*0.4*	*-2.5*	*2.8*	*2.4*

Source: CIBC, Statistics Canada

But more than others, the West will reap the benefits of reinvigorated Asia-Pacific growth. Its edge may be marginal in 2010 (Chart 2), with CIBC forecasts residing at the lower end of the current consensus due to a more conservative call for Canada as a whole. Come 2011, commodity-based provinces will be flying even higher (Table 2).

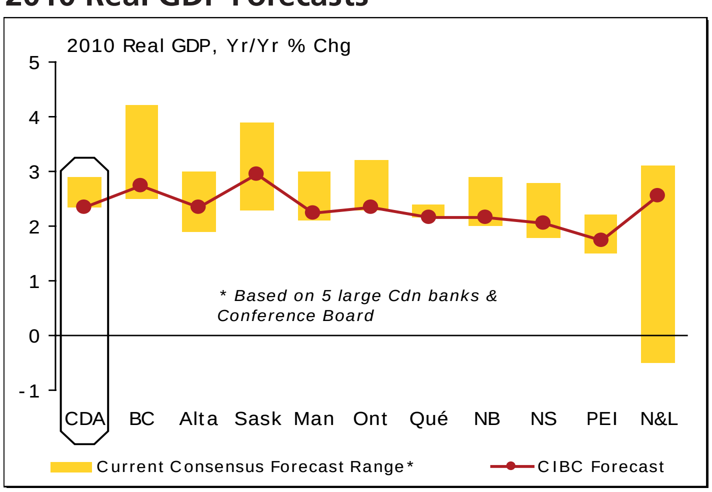
If anything, a cooling in once-overheated housing markets, wages and material costs has set the stage for renewal. It was the West, after all, that earlier sparked concerns of a housing bubble and labour shortages. A global financial crisis and resource price skid put an end to Western Canada's housing boom (Chart 3), but in recent months, housing activity has re-accelerated (Chart 4). Business investment is likewise returning. The stage is again set for economic outperformance.

British Columbia will be among the leaders in 2010-11. Incented by an attractive royalty regime, shale gas deposits are being pursued aggressively, complementing an upturn in other mining activity. Muted US home construction clouds the outlook for forestry products. Still, we anticipate success in broadening and deepening BC's export base, with expanded transportation infrastructure allowing the province to lever its Gateway to Asia status. We don't see the end of Olympics spending as a significant drag. The adoption of a harmonized sales tax should spur investment—an avenue for enhancing a relatively poor productivity record (Chart 5).

A still-tentative consumer suggests Alberta will be slower to re-accelerate in 2010. But the newfound availability of cost-effective inputs, alongside a recovery in commodity prices, is sparking re-investment. Expansion of the oil

Chart 2

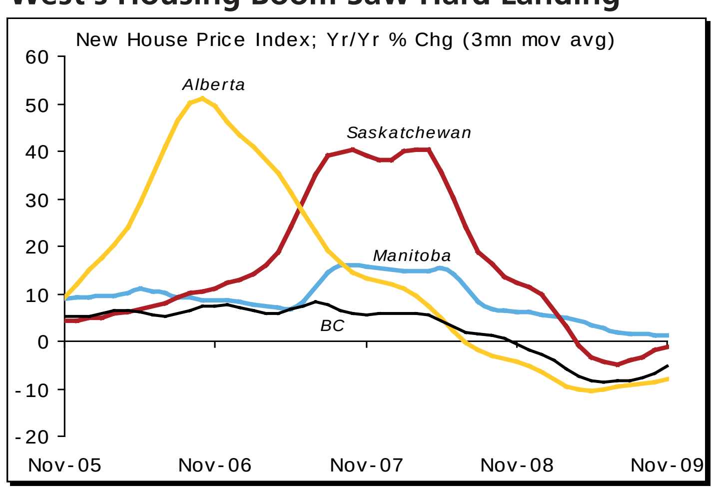
2010 Real GDP Forecasts



Source: CIBC

Chart 3

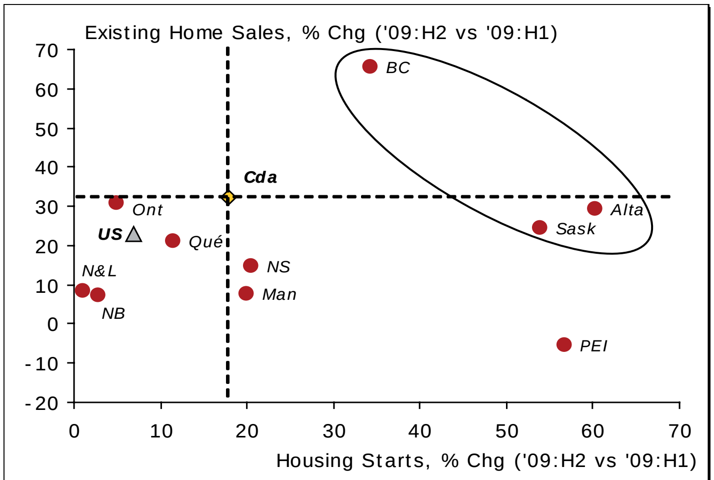
West's Housing Boom Saw Hard Landing



Source: Statistics Canada

Chart 4

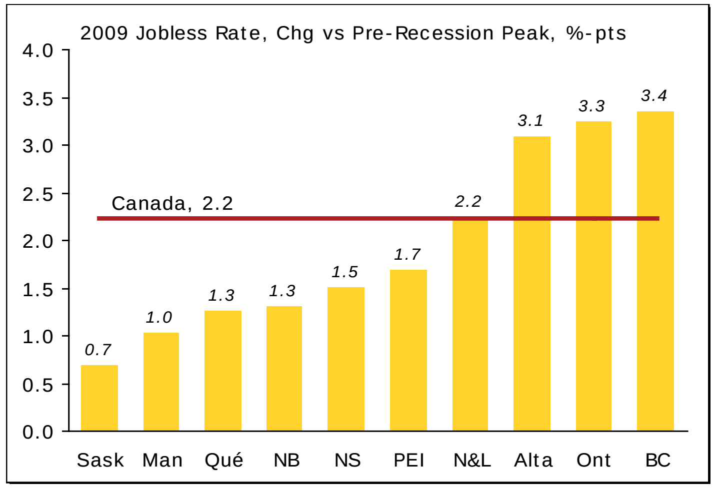
But Western Housing Activity Recovering



Source: CMHC, CREA

Chart 6

Less Slack in Saskatchewan's Labour Market



Source: Statistics Canada

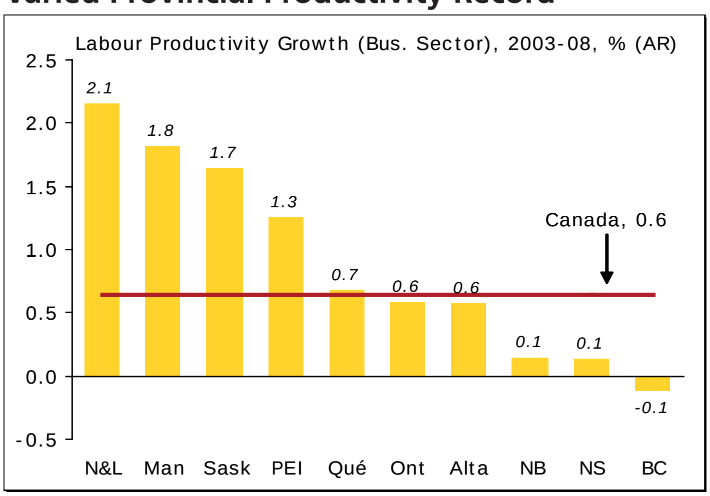
sands compensates for uncertainty in conventional natural gas, which faces competition from abundant shale gas elsewhere. A revised royalty regime could be an important offset here. Political momentum towards tough carbon standards appears to have faded, reducing the near term uncertainties to Alberta's carbon-intensive economy.

Saskatchewan entered 2010 with considerable potential. In stark contrast to others, total employment advanced 1.5% last year. Being closer to full employment (Chart 6), wage growth leads the nation, auguring well for future consumer demand. Solid job prospects will continue to spur in-migration, with population growth stronger than at any time in the past thirty years. Oil, potash, agriculture and uranium sectors are again in demand, with ongoing development paving the way for production increases. Expect Saskatchewan to lead all provinces in 2010, and to battle Alberta for top spot in 2011.

Manitoba escaped recession relatively unscathed, tabling a fourth straight year of above-average growth in 2009. With less ground to be made up, growth should run just in line with the national average in 2010. Unemployment has been contained, personal finances are in better shape than most and housing market demand hasn't materially wavered. A diverse manufacturing base is a strength. Meanwhile, transportation infrastructure is being enhanced and vast hydro potential is being developed. Over the medium term, fiscal policy will be less of a drag, given a budget deficit that is the smallest in the country (Chart 7).

Chart 5

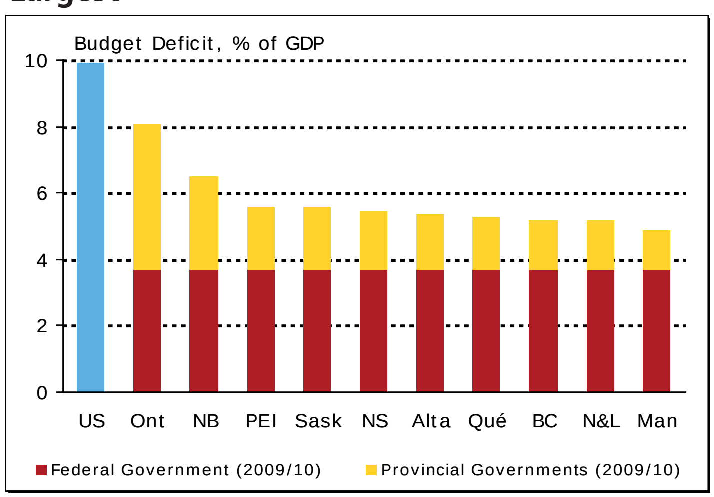
Varied Provincial Productivity Record



Source: Statistics Canada

Chart 7

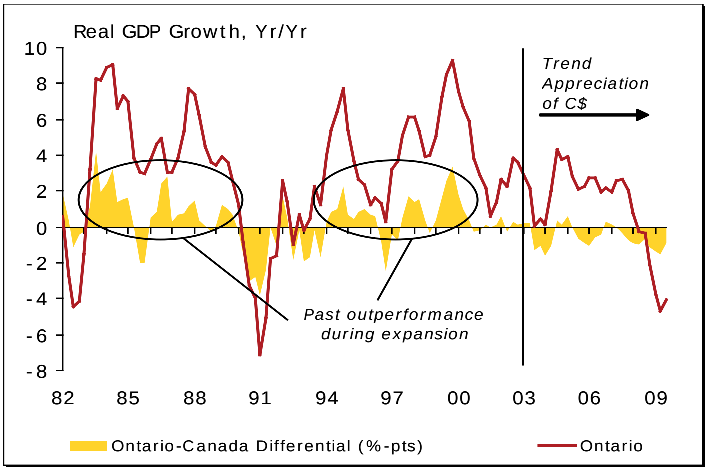
Manitoba's Deficit the Smallest, Ontario's the Largest



Source: Federal/Provincial Governments, CIBC

Chart 8

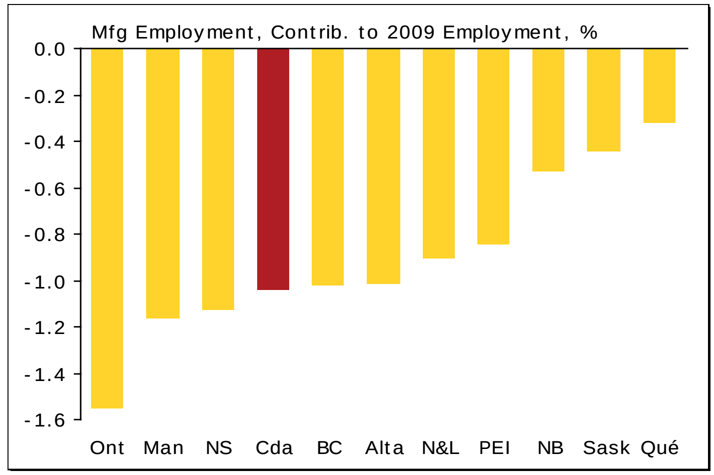
Ontario Led Country Out of Past Recessions



Source: Statistics Canada

Chart 9

Factory Layoffs Weighed Heaviest on Ontario



Source: Statistics Canada

Ontario Picks Up the Pieces

For Ontario, 2009 was a year to forget. But as growth returns, how will Ontario stack up? It was once the case that Ontario outperformed in expansion, at least until the C$ began its trend appreciation (Chart 8). Since that time, Ontario has lagged the national average.

That makes recent developments all the more notable. Ontario outpaced the national average by a significant margin in Q3, and with momentum carried into the first half of this year, Ontario's full-year growth rate should exceed the national average for the first time in eight years.

This year's growth rate captures comparisons to depressed levels of activity in 2009. That's particularly true in manufacturing, where shipments slumped and factory job losses lopped more than 1.5% off total employment (Chart 9). Once an inventory restocking has run its course, growth could be harder to sustain.

While its weight is diminished, the factory sector must contend with an overvalued exchange rate. Lower US costs and heightened competition from emerging Asia pose a threat to Ontario, North America's largest auto producer. And as a net-energy importer, higher oil and gas prices won't do producers any favours. Future years will also feel the drag from government belt tightening.

Table 3

Detailed Provincial Economic Forecast

	Employment Yr/Yr % Chg			Unemployment Rate %			Retail Sales Yr/Yr % Chg			Housing Starts 000s Units			Consumer Price Index Yr/Yr % Chg		
	2009A	2010F	2011F	2009A	2010F	2011F	2009E	2010F	2011F	2009A	2010F	2011F	2009A	2010F	2011F
BC	-2.4	1.5	2.1	7.6	7.8	7.4	-4.9	7.5	5.5	15.9	22.5	23.5	0.0	2.0	2.3
Alta	-1.3	1.3	2.4	6.6	7.0	6.4	-8.8	3.0	8.5	19.8	28.5	31.0	-0.1	1.6	2.1
Sask	1.5	1.4	2.2	4.8	4.9	4.5	-2.2	4.5	7.5	3.7	5.3	5.8	1.1	1.5	2.0
Man	0.0	0.8	1.6	5.2	5.3	5.0	-1.0	5.0	6.0	4.1	4.8	5.0	0.6	1.5	1.8
Ont	-2.4	1.2	1.5	9.0	9.1	8.9	-2.3	3.8	5.5	50.1	58.0	59.0	0.4	2.1	2.2
Qué	-1.0	1.0	1.6	8.5	8.4	8.3	-0.9	4.2	5.0	43.3	48.5	48.5	0.6	1.5	1.7
NB	0.1	0.8	1.5	8.9	8.8	8.6	-0.2	4.0	4.7	3.5	3.8	3.9	0.3	1.4	1.6
NS	-0.1	0.9	1.3	9.2	9.3	9.1	0.5	4.5	4.5	3.4	3.7	3.8	-0.1	1.5	1.8
PEI	-1.1	1.0	1.2	12.1	11.8	11.6	-0.5	3.5	4.3	0.8	1.1	1.1	-0.1	1.3	1.5
N&L	-2.4	1.3	2.0	15.5	15.7	15.1	3.0	5.5	7.0	3.1	3.5	3.6	0.3	1.7	2.0
CDA	-1.6	1.2	1.7	8.3	8.3	8.1	-3.0	4.4	5.8	148	180	185	0.3	1.8	2.0

Source: CIBC, Statistics Canada, CMHC

A harmonized sales tax, alongside cuts to corporate taxes, will boost competitiveness and help lure jobs. A focus on emerging sectors, such as green power, also looks to pay dividends. Finally, growth in Canada's banking sector stands to benefit Ontario disproportionately.

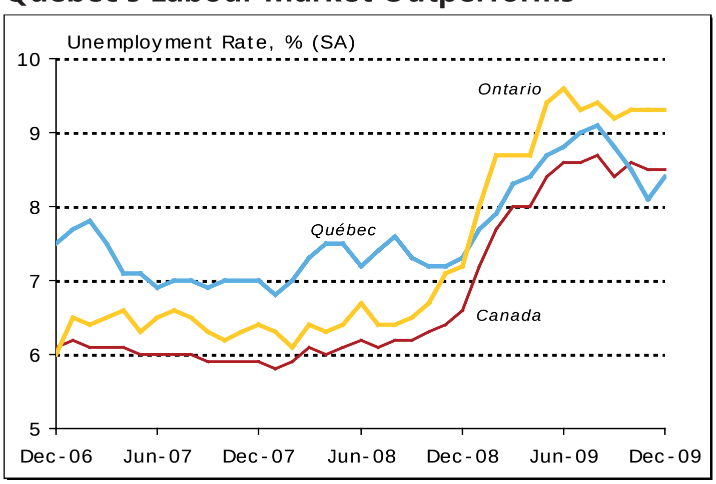
Québec's 2009 real GDP decline was less acute than that of its Central Canada cousin. In fact, Québec's growth edge vs Ontario was the largest in nearly two decades. But having sustained less damage, Québec looks to relinquish its edge in the initial stages of recovery.

Fiscal stimulus has been timely and effective, with public sector projects driving investment and job creation. As in other parts of the country, government will lend support in 2010. Absent a heavy reliance on autos, Québec's diverse manufacturing base suffered less damage. Still, forestry remains an industry in decline, aluminium is challenged by new global capacity, and refining output has been scaled back. Aerospace demand has also softened.

Overall, the province has seen a significantly smaller rise in joblessness (Chart 10). This relatively stronger labour market supports consumer demand and housing, although past outperformance means there's less easy ground to be regained.

Chart 10

Québec's Labour Market Outperforms



Source: Statistics Canada

Atlantic Canada Weathered Storm Well

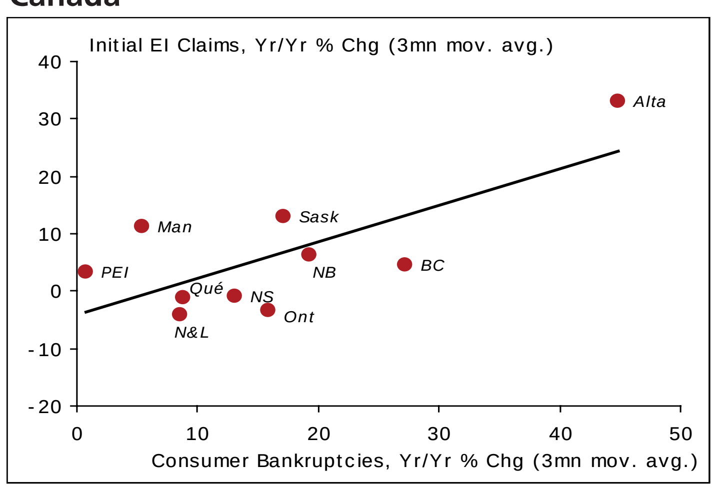
Save Newfoundland & Labrador, the Atlantic provinces suffered a less severe economic hit during 2009. Consumer fundamentals are in relatively better shape (Chart 11), but with a leaner roster of major capital projects, growth in much of the region is likely to trail the national average in 2010-11.

Tax cuts and the potential for lower power rates look to make New Brunswick a more attractive destination for industry. Investments in education have made that industry a jobs leader. Less positively, traditional sectors like forestry and business services face headwinds, as US housing construction sees only a limited bounce in 2010 and call-centre jobs are lost to lower-cost centres. In some cases, major capital investment has been put off, although government infrastructure spending continues to lend support and resource production (notably potash) is being expanded.

As with New Brunswick, Nova Scotia escaped 2009 with limited damage to real GDP and employment (Table 3, preceding page). New public and private service jobs offset layoffs in Nova Scotia's factory sector. The province boasts a vibrant finance industry and its transportation sector stands to benefit from an upturn in global demand. After a tough year, exports of agriculture/fishing products look to benefit from stronger US demand. In the resource sector, first gas from Deep Panuke will flow in 2010, helping to offset depletion in more mature fields. The status of a liquid natural gas terminal remains uncertain,

Chart 11

Stronger Consumer Fundamentals in Atlantic Canada



Source: Statistics Canada, Industry Canada although a clean-up of the Sydney tar ponds bolsters investment. Prince Edward Island will see a limited bounce in 2010, and despite diversifying its economy, the agriculture sector has been under stress.

Output in Newfoundland & Labrador slumped in 2009, as energy and mineral production declined. The province is poised for a notable rebound in 2010, however, with growth again running above the national average. Confidence remains high, with consumer spending and business investment expected to lend meaningful support in the years ahead. Once a labour dispute is resolved, nickel production is poised to shoot higher, with a strong price backdrop supportive. Meanwhile, work is proceeding on an important nickel processing facility. Barring production disruptions, real GDP growth in 2011 should strengthen further, with large energy projects having the potential to deliver strong growth longer-term.