

All provinces will feel the pain of COVID-19

March 2020

Oil producing provinces hardest hit

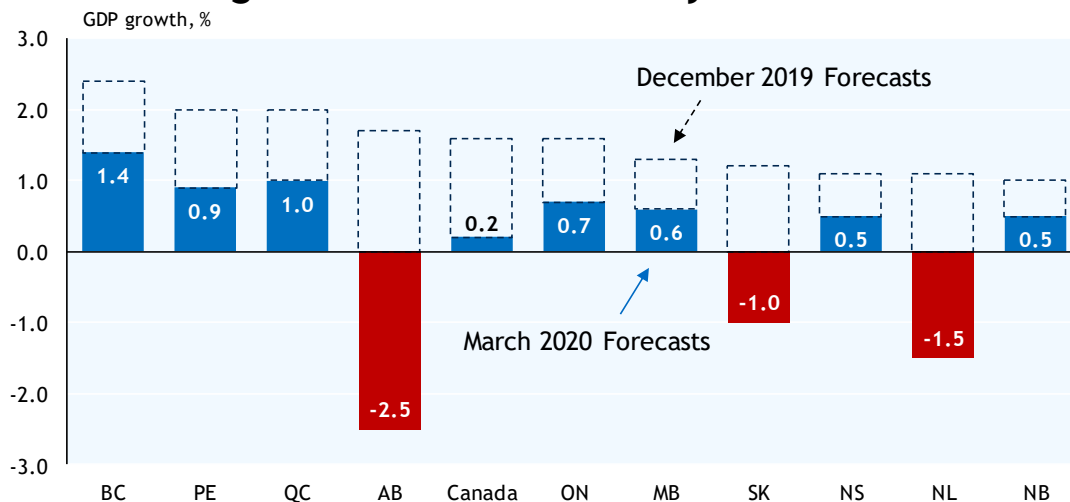
The outlook for Canada’s economy has changed significantly since the end of 2019 with growth forecasts being downgraded substantially. Temporary factors that weighed on growth late last year set up for a soft start to 2020 but it was the growing reach of the COVID-19 and plunging oil prices that were more impactful for our forecasts. At the national level, our growth forecast has been cut to 0.2% for 2020, more than a full percentage point below our December estimate. The weakness will be spread throughout the country with all provincial forecasts downgraded and the oil-producers now expected to contract this year.

New pressures alter outlook

Since the start of the year, the provincial economies have been dealt a one-two punch from COVID-19 and plummeting oil prices. The hit from the virus will be widespread with the greatest impact expected in the first half of the year. The oil-producing economies however will face more sustained pressure after a price war between Saudi Arabia and Russia resulted in a plunge in oil prices. The price of a barrel of Western Texas Intermediate has fallen to half what it was at the recent peak on January 6, 2020. We expect Alberta, Saskatchewan and Newfoundland & Labrador to contract in 2020 as declining cash flows in the oil and gas sector hamper business investment and potentially result in job losses.

Canada’s provinces were already under pressure from the decline in global trade activity as the US and China’s trade spat intensified and China’s bans on some Canadian agricultural products and US tariffs on softwood lumber weighed on exports. Added pressure came at the end of the year as rail disruptions and auto strikes limited transportation and snarled supply chains. Even though 2020 started with some positive news on the trade front - signing of the USMCA and the phase 1 trade deal between the US and China, another round of rail activity disrupted movement across B.C., Ontario and Quebec. And then came COVID-19 and the oil price drop.

Weaker growth across the country



Source: RBC Economics

We revised down our 2019 growth forecasts for Ontario, Alberta and British Columbia. In Ontario, the final quarter of 2019 was hammered by weaker manufacturing sales as transitory factors like the rail and auto industry strikes slowed activity. Growth is now expected to be a touch weaker at 1.6% in 2019. The year also ended on a softer note out west. Exports contracted in both B.C. and Alberta – the former due to woes in the forestry sector, while Alberta saw more widespread weakness including in the labour market and retail sales. B.C.'s forecast was downgraded by 0.2% to 1.9% while Alberta looks to have underperformed our previous tepid forecast of 0.6% and barely grew at all last year.

While business and consumer confidence measures haven't yet shown the impact of the virus, investment intentions were already weak across most of the country. This year's capital investment intentions survey by Statistics Canada showed that private sector companies in most provinces expected to remain on the sidelines with any gains concentrated in capital expenditures by the public sector. And even that support was sorely missing in provinces like Manitoba and Newfoundland & Labrador, where a decline in total capital expenditures is projected for 2020. Fiscal austerity measures in Alberta and Ontario were expected although the turn in the economic outlook in recent weeks brings into question how much restraint will occur.

The Bank of Canada's decision to cut the policy rate by 50bps in early March will provide relief to some heavily indebted households in Ontario and British Columbia but housing markets won't be immune to the panic in financial markets. Negative wealth effect will hurt some buyers and ubiquitous COVID-19 news will shake consumer confidence. Lower mortgage rates might initially keep the market humming but ultimately won't stop bearish sentiment setting in. We expect spring and summer house hunting season to quiet down. Buyers will have plenty of excuses to take a wait-and-see approach. We expect the recent acceleration in home prices in Toronto, Vancouver, Ottawa, Montreal and elsewhere to taper off. Any signs of price weakness are likely push even more buyers to the sidelines—hoping to buy later at a lower price. As the COVID-19 situation settles down later this year, we expect buyers to rush back into the market *en force*. We expect sentiment to turn around by then—potentially dramatically—spurred by ultra-low interest rates and the fear of missing out. Home prices will start strengthening at that point, leading to strong gains in 2021.

BC's economy to benefit from investment

BC is still expected to be the strongest performer in 2020 although we have significantly reduced the growth forecast to 1.4% from 2.4%. In part this reflects a softer than anticipated hand-off from 2019 as exports plunged 6% due to a sharp drop in forestry products sales. Heightened uncertainty will take a toll on the housing market in the near term although lower interest rates and easing of mortgage stress test conditions may boost demand later this year. BC is likely to be more heavily impacted by a decline in tourism (from coronavirus pandemic) given that 42% of Asian tourists to Canada visit the province. Residents of China, South Korea and Japan combined spent \$1.2 billion in British Columbia in 2018.

B.C.'s economy will get support from strong capital investment in 2020 with the continued construction of the LNG project as well as a 19% surge in public sector spending. The \$32.6 billion capital plan announced in BC Budget 2020 will be spent over three years. Further, the U.S. government's recent announcement that tariffs on lumber producers will be scaled back effective August 2020 opens the door for a recovery in lumber exports in the year ahead.

Prairies hit with double whammy

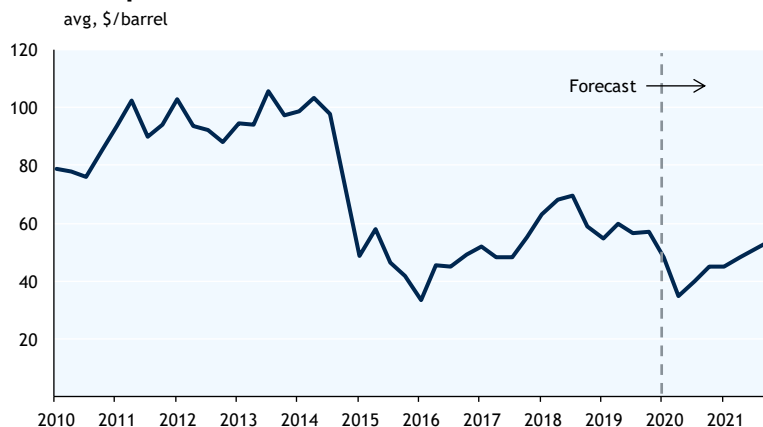
Sharply lower commodity prices weigh heavily on our forecasts for the Prairies derailing expectations for stronger year for these economies. Alberta and Saskatchewan's economies are now expected to slip back into recession in 2020 with oil prices having fallen to the lowest level since 2016 and expected to stay low. For Alberta, this shelves any prospect that the economy will finally recover the output lost during the 2015-16 downturn. Taking into account recent events, we have revised down our assumption for the average WTI price in 2020 to \$42, significantly below the \$58 that underpinned our previous forecast. The lower price of oil will meaningfully impact provincial government revenues with the recently released budget based on an average WTI price of \$58 for 2020. We forecast Alberta's GDP will decline by 2.5% in 2020 following 2019's marginal 0.3% gain.

Similarly, weaker oil prices will affect Saskatchewan in 2020. The economy ended 2019 on a softer note after rail blockades in November stopped the transportation of key products like primary metals. While the end of the transportation disruptions likely saw

activity recover, multiple pockets of weakness in an economy that has already been struggling doesn't bode well. The combination of flat capital investment and lower commodity prices are likely to see Saskatchewan's economy contract by 1% this year.

Lower international demand for Manitoba's exports and constrained supply of manufacturing parts from China sets up for a modest 0.6% rise in real GDP this year. Public investment spending is expected to fall to a six year low (as major utilities projects wind down) which combined with a pullback by private companies will result in a big decline in capital expenditures of 7.3%.

WTI price forecast



Source: Energy Information Administration, RBC Economics

Ontario's economy to weaken as virus curbs spending

Ontario's economy saw a weak end to 2019 as auto strikes in the US impacted motor vehicle manufacturing and shipments. Pressure on the auto sector is expected to continue with the closure of GM's Oshawa plant at the start of this year. Ongoing teachers' strikes in the province will exert some weight on Q1 performance given the decline in hours worked. While Ontario will benefit from higher capital spending led by public construction projects this year, uncertainty will weigh on housing with buyers less inclined to house hunt in the near term. And even with lower interest rates providing some cushion to highly indebted households, we expect nervousness will keep consumers cautious. Our forecast assumes that the impact of the virus will run its course by the second half of the year, opening the door to a snapback in housing activity. Ontario's economy is expected to gain steam in the final months of the year though only a mild 0.7% gain is forecast for 2020.

Hit from virus to cap Quebec's stellar run

While Quebec's economy outperformed almost all provinces in 2019, widespread declines in external demand and disruptions to supply chains as coronavirus spreads will no doubt weaken the stellar performance of the provincial economy. Rail blockades in February hampered train (both cargo and otherwise) travel between Ontario and Quebec. Despite this transitory weight on activity Quebec's economy started 2020 on solid footing. Quebec's unemployment rate fell to a record low in February and both public and private capital spending growth is expected to rise. The recently released Budget 2020 showed further improvement in the province's fiscal picture providing flexibility to respond to the virus outbreak. Even with all these positives, Quebec's economy is likely to weaken in 2020 with growth averaging just 1% this year.

Atlantic provinces face tough 2020

The Atlantic Provinces are forecast to gear down in 2020 with the most significant revision in Newfoundland and Labrador where the drop in commodity prices will push GDP growth into negative territory. Weak capital investment in the Atlantic region, only Nova Scotia will see a rise driven by private sector companies, along with the same transitory factors affecting the rest of the country led us to downgrade our 2020 forecasts. More directly, Nova Scotia and Prince Edward Island are likely to contend with lower exports to their increasingly important trade partner – China. Still, Prince Edward Island's growth will lead the Atlantic Provinces at 0.9% as public spending will provide some support. Nova Scotia will see a slower pace of 0.5%. New Brunswick's lumber industry will get a lift in the second half of 2020 thanks to lower tariffs from the U.S. Growth is slightly weaker than last year's pace at 0.5%. And finally Newfoundland & Labrador will see the biggest decline in capital spending as major projects like Muskrat Falls wrap up. The province will suffer from lower oil prices this year resulting in our forecast for the economy to contract this year.

Forecast details

% change unless otherwise indicated

	Real GDP				Nominal GDP				Employment				Unemployment				Housing starts				Retail sales				CPI			
	18	19F	20F	21F	18	19F	20F	21F	18	19F	20F	21F	18	19F	20F	21F	18	19F	20F	21F	18	19F	20F	21F	18	19F	20F	21F
N.& L.	-3.5	2.0	-1.5	-0.5	1.7	3.3	-3.4	4.0	0.5	0.6	-1.3	0.0	13.8	11.9	12.4	12.9	1.1	0.9	0.7	0.6	-2.3	-0.1	-1.0	-1.1	1.7	1.0	1.6	1.7
P.E.I.	2.6	2.8	0.9	2.0	4.2	5.0	2.9	3.9	3.0	2.7	2.5	0.3	9.4	8.8	8.8	8.9	1.1	1.5	1.4	1.2	2.9	3.6	1.7	1.4	2.3	1.2	1.9	1.8
N.S.	1.5	1.3	0.5	1.0	3.3	3.5	2.5	3.0	1.5	2.2	1.8	1.2	7.6	7.2	7.5	7.3	4.8	4.7	4.5	4.5	0.3	2.7	0.4	1.7	2.2	1.6	1.9	1.9
N.B.	0.8	0.7	0.5	0.8	3.2	2.4	2.0	2.3	0.3	0.8	0.7	0.6	8.0	8.0	7.7	7.7	2.3	2.9	3.3	2.6	1.7	2.1	1.6	0.6	2.2	1.7	1.7	1.8
QUE.	2.5	2.5	1.0	1.6	4.8	4.0	3.2	3.1	0.9	1.8	0.8	0.8	5.5	5.1	5.2	5.8	46.9	48.0	49.0	44.5	2.9	1.8	1.4	1.5	1.7	2.1	1.7	1.6
ONT.	2.2	1.6	0.7	1.7	3.7	3.3	2.9	3.2	1.6	2.9	1.5	1.3	5.6	5.6	5.7	5.6	78.7	69.0	79.9	82.0	4.4	2.8	1.8	1.6	2.4	1.9	1.6	1.6
MAN.	1.3	1.1	0.6	1.4	2.2	2.4	2.6	3.3	0.6	0.9	0.9	0.4	6.0	5.3	5.9	6.1	7.4	6.9	7.0	7.5	2.9	1.1	0.8	0.8	2.5	2.3	1.6	1.6
SASK.	1.3	0.6	-1.0	1.9	1.4	2.0	-3.1	10.1	0.4	1.8	-0.7	1.5	6.1	5.4	7.0	6.0	3.6	2.4	3.2	5.0	-0.3	-0.5	-1.4	1.0	2.3	1.7	1.8	2.0
ALTA.	1.6	0.3	-2.5	2.3	3.8	0.3	-9.6	8.4	1.9	0.5	-1.6	1.7	6.6	6.9	8.4	7.7	26.1	27.3	26.6	29.5	2.0	-1.0	-1.4	1.1	2.5	1.7	1.2	1.3
B.C.	2.6	1.9	1.4	2.7	4.5	4.3	3.9	4.5	1.1	2.6	-0.2	1.0	4.7	4.7	5.3	5.6	40.9	44.9	36.5	35.0	2.0	0.6	0.9	0.9	2.7	2.3	1.5	1.4
CANADA	2.0	1.6	0.2	1.8	3.9	3.6	0.6	4.7	1.3	2.1	0.9	0.7	5.8	5.7	6.1	6.1	213	209	212	212	2.9	1.6	0.9	1.3	2.3	1.9	1.2	1.9

Key provincial comparisons

(2018 unless otherwise stated)

	Canada	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Population (000s, 2019)	37,589	522	157	971	777	8,485	14,567	1,369	1,174	4,371	5,071
Gross domestic product (\$ billions)	2,223.9	33.2	7.0	44.4	37.0	439.4	857.4	72.7	80.7	344.8	295.4
Real GDP (\$2012 billions)	2,058.1	32.4	6.3	40.2	33.2	394.9	778.5	67.4	86.6	346.5	264.1
Share of provincial GDP of Canadian GDP (%)	100.0	1.5	0.3	2.0	1.7	19.8	38.6	3.3	3.6	15.5	13.3
Real GDP growth (CAGR, 2013-18, %)	1.9	-0.8	2.1	1.3	0.9	1.9	2.4	1.8	0.8	0.9	3.0
Real GDP per capita (\$ 2012)	55,538	61,655	41,111	41,948	43,059	47,077	54,371	49,824	74,462	80,563	52,800
Real GDP growth rate per capita (CAGR, 2013-18, %)	0.8	-0.8	0.8	0.9	0.6	1.2	1.3	0.5	-0.3	-0.6	1.4
Personal disposable income per capita (\$)	33,310	31,665	29,241	30,145	30,108	29,924	33,488	29,943	33,357	38,872	35,749
Employment growth (CAGR, 2014-19, %)	1.4	-1.0	1.0	0.8	0.2	1.3	1.6	0.8	0.3	0.6	2.3
Employment rate (Feb. 2020, %)	61.8	50.8	61.8	57.9	56.9	61.8	61.6	63.6	65.0	65.4	61.2
Discomfort index (inflation + unemp. rate, Jan. 2020)	7.9	14.1	10.5	10.0	10.0	7.8	7.3	7.6	8.3	10.3	6.8
Manufacturing industry output (% of GDP)	10.4	4.0	10.6	7.8	10.7	14.1	12.2	9.8	6.4	8.5	7.1
Personal expenditures on goods & services (% of GDP)	56.4	52.1	66.4	70.7	65.4	57.4	57.8	58.1	48.0	46.3	62.7
International exports (% of GDP)	32.1	45.2	22.7	17.9	39.1	29.6	34.1	24.6	40.8	35.8	25.3

Forecast Details

% change unless otherwise specified

British Columbia

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	2.2	3.7	2.0	2.8	3.7	2.6	1.9	1.4	2.7
Nominal GDP	3.4	5.6	2.8	5.2	7.1	4.5	4.3	3.9	4.5
Employment	0.1	0.6	1.2	3.2	3.7	1.1	2.6	-0.2	1.0
Unemployment Rate (%)	6.6	6.1	6.2	6.0	5.1	4.7	4.7	5.3	5.6
Retail Sales	2.8	6.3	7.0	7.7	9.3	2.0	0.6	0.9	0.9
Housing Starts (Thousands of Units)	27.1	28.4	31.4	41.8	43.7	40.9	44.9	36.5	35.0
Consumer Price Index	-0.1	1.0	1.1	1.9	2.1	2.7	2.3	1.5	1.4

Alberta

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	5.7	5.9	-3.7	-3.5	4.8	1.6	0.3	-2.5	2.3
Nominal GDP	9.6	10.0	-14.0	-6.1	9.2	3.8	0.3	-9.6	8.4
Employment	2.5	2.2	1.2	-1.6	1.0	1.9	0.5	-1.6	1.7
Unemployment Rate (%)	4.6	4.7	6.0	8.1	7.8	6.6	6.9	8.4	7.7
Retail Sales	7.2	7.9	-4.0	-1.1	7.1	2.0	-1.0	-1.4	1.1
Housing Starts (Thousands of Units)	36.0	40.6	37.3	24.5	29.5	26.1	27.3	26.6	29.5
Consumer Price Index	1.4	2.6	1.2	1.1	1.5	2.5	1.7	1.2	1.3

Saskatchewan

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	6.5	2.0	-0.8	-0.1	1.7	1.3	0.6	-1.0	1.9
Nominal GDP	6.7	-0.4	-3.9	-5.0	5.1	1.4	2.0	-3.1	10.1
Employment	3.1	1.0	0.5	-0.9	-0.2	0.4	1.8	-0.7	1.5
Unemployment Rate (%)	4.1	3.8	5.0	6.3	6.3	6.1	5.4	7.0	6.0
Retail Sales	5.2	4.7	-3.3	1.5	4.1	-0.3	-0.5	-1.4	1.0
Housing Starts (Thousands of Units)	8.3	8.3	5.1	4.8	4.9	3.6	2.4	3.2	5.0
Consumer Price Index	1.4	2.4	1.6	1.1	1.7	2.3	1.7	1.8	2.0

Manitoba

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	2.9	2.1	1.2	1.4	3.1	1.3	1.1	0.6	1.4
Nominal GDP	4.2	3.1	2.5	2.1	5.7	2.2	2.4	2.6	3.3
Employment	0.7	0.1	1.6	-0.4	1.7	0.6	0.9	0.9	0.4
Unemployment Rate (%)	5.4	5.4	5.6	6.1	5.4	6.0	5.3	5.9	6.1
Retail Sales	3.8	4.2	1.3	3.7	7.8	2.9	1.1	0.8	0.8
Housing Starts (Thousands of Units)	7.5	6.2	5.5	5.3	7.5	7.4	6.9	7.0	7.5
Consumer Price Index	2.3	1.8	1.2	1.3	1.6	2.5	2.3	1.6	1.6

Ontario

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	1.4	2.5	2.5	2.1	2.9	2.2	1.6	0.7	1.7
Nominal GDP	2.3	4.4	4.6	4.0	4.6	3.7	3.3	2.9	3.2
Employment	1.8	0.8	0.7	1.1	1.8	1.6	2.9	1.5	1.3
Unemployment Rate (%)	7.6	7.3	6.8	6.5	6.0	5.6	5.6	5.7	5.6
Retail Sales	2.7	5.7	5.3	6.9	7.7	4.4	2.8	1.8	1.6
Housing Starts (Thousands of Units)	61.1	59.1	70.2	75.0	79.1	78.7	69.0	79.9	82.0
Consumer Price Index	1.1	2.3	1.2	1.8	1.7	2.4	1.9	1.6	1.6

Forecast Details

% change unless otherwise specified

Quebec

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	1.3	1.6	0.9	1.6	2.8	2.5	2.5	1.0	1.6
Nominal GDP	3.0	3.0	2.9	3.0	5.0	4.8	4.0	3.2	3.1
Employment	1.4	0.0	0.9	0.9	2.2	0.9	1.8	0.8	0.8
Unemployment Rate (%)	7.6	7.7	7.6	7.1	6.1	5.5	5.1	5.2	5.8
Retail Sales	3.0	2.6	1.9	6.6	5.5	2.9	1.8	1.4	1.5
Housing Starts (Thousands of Units)	37.8	38.8	37.9	38.9	46.5	46.9	48.0	49.0	44.5
Consumer Price Index	0.8	1.4	1.1	0.7	1.1	1.7	2.1	1.7	1.6

New Brunswick

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	-0.3	0.1	0.7	0.8	2.2	0.8	0.7	0.5	0.8
Nominal GDP	0.3	1.8	3.1	2.6	4.4	3.2	2.4	2.0	2.3
Employment	0.4	-0.2	-0.6	-0.1	0.4	0.3	0.8	0.7	0.6
Unemployment Rate (%)	10.3	10.0	9.8	9.6	8.1	8.0	8.0	7.7	7.7
Retail Sales	0.7	3.7	2.2	2.1	6.8	1.7	2.1	1.6	0.6
Housing Starts (Thousands of Units)	2.8	2.3	2.0	1.8	2.3	2.3	2.9	3.3	2.6
Consumer Price Index	0.8	1.5	0.5	2.2	2.3	2.2	1.7	1.7	1.8

Nova Scotia

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	-0.3	1.0	0.7	1.6	1.6	1.5	1.3	0.5	1.0
Nominal GDP	2.1	2.9	2.2	2.2	3.2	3.3	3.5	2.5	3.0
Employment	-1.1	-1.1	0.1	-0.4	0.6	1.5	2.2	1.8	1.2
Unemployment Rate (%)	9.1	8.9	8.6	8.3	8.4	7.6	7.2	7.5	7.3
Retail Sales	3.2	2.8	0.2	4.7	7.8	0.3	2.7	0.4	1.7
Housing Starts (Thousands of Units)	3.9	3.1	3.8	3.8	4.0	4.8	4.7	4.5	4.5
Consumer Price Index	1.2	1.7	0.4	1.2	1.1	2.2	1.6	1.9	1.9

Prince Edward Island

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	1.8	0.1	1.4	2.1	4.4	2.6	2.8	0.9	2.0
Nominal GDP	3.2	1.6	3.9	4.7	5.3	4.2	5.0	2.9	3.9
Employment	1.4	-0.1	-1.2	-2.2	3.1	3.0	2.7	2.5	0.3
Unemployment Rate (%)	11.5	10.6	10.5	10.8	9.8	9.4	8.8	8.8	8.9
Retail Sales	0.9	3.5	2.6	7.3	6.3	2.9	3.6	1.7	1.4
Housing Starts (Thousands of Units)	0.6	0.5	0.6	0.6	0.9	1.1	1.5	1.4	1.2
Consumer Price Index	2.0	1.6	-0.6	1.2	1.8	2.3	1.2	1.9	1.8

Newfoundland and Labrador

	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Real GDP	5.3	-1.2	-1.2	1.5	0.4	-3.5	2.0	-1.5	-0.5
Nominal GDP	7.6	-0.6	-9.2	1.1	3.7	1.7	3.3	-3.4	4.0
Employment	0.8	-1.7	-1.0	-1.5	-3.7	0.5	0.6	-1.3	0.0
Unemployment Rate (%)	11.6	11.9	12.8	13.4	14.8	13.8	11.9	12.4	12.9
Retail Sales	5.2	3.7	0.7	0.4	2.4	-2.3	-0.1	-1.0	-1.1
Housing Starts (Thousands of Units)	2.9	2.1	1.7	1.4	1.4	1.1	0.9	0.7	0.6
Consumer Price Index	1.7	1.9	0.4	2.7	2.4	1.7	1.0	1.6	1.7

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