

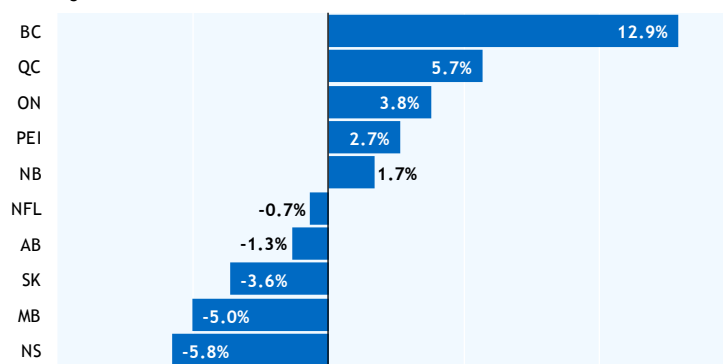
## Look to both coasts for the fastest growth in 2019

Canada's economy ended 2018 on a weak note, posting the slowest quarterly growth rate since mid-2016 and providing a soft handoff to 2019. Much of the sluggishness came from the energy sector, and we expect that to continue in early 2019. The weaker starting point has led us to reduce our provincial growth outlook—particularly in Alberta, where oil market-access issues continue to weigh on the energy and construction sectors.

The picture isn't all bleak. The annual non-residential capital and repair expenditures survey by Statistics Canada indicated that spending will rise in half of Canada's provinces. In British Columbia, the start of construction on a \$40 billion LNG project is providing a significant boost to investment. Rising oil production and the ramping up of construction at Husky's White Rose project in Newfoundland and Labrador, will help that province bounce back nicely from a tough 2018. We expect the Canadian economy overall to grow 1.5% in 2019 and a faster 1.8% in 2020.

### Capital investment intentions by province, 2019

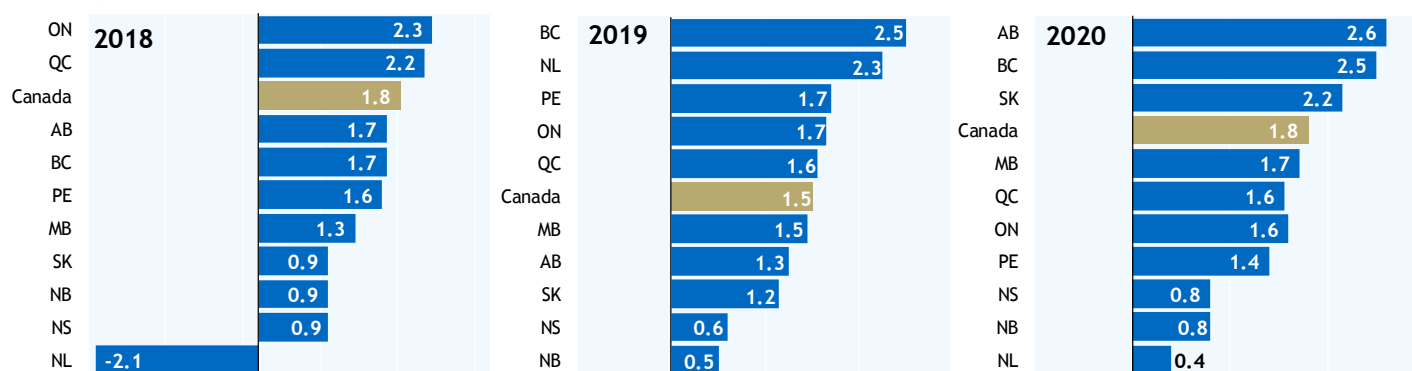
% change from 2018



Source: Statistics Canada, RBC Economic Research

### Real GDP Growth

% change



Source: Statistics Canada, RBC Economic Research

### Which side of the Rockies?

The prolonged correction in British Columbia's housing sector continued through the latter part of 2018. Home sales fell almost 25% last year, and signs don't yet point to the end of the correction. Even though the economy is moving away from relying on the housing mar-

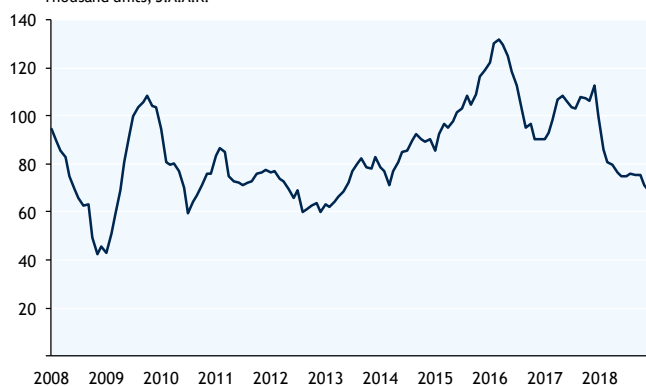


ket to support growth, the LNG Canada project provides good reason for British Columbians to feel upbeat. Nowhere else in Canada will see as big a capital spending boost this year as B.C., where expenditures will rise 12.9%. We project real GDP growth of 2.5% in both 2019 and 2020.

Alberta ended 2018 on a rough note after the differential between the Western Canadian Select and West Texas Intermediate oil benchmarks widened to record levels last fall. Grappling with market-access issues and a growing oversupply of oil, the provincial government mandated production cuts to bring price differentials down. While the policy had the intended effect, the postponement of Enbridge’s Line 3 replacement project—which would add 375,000 barrels of crude oil export capacity—means access issues will persist well into 2020. The mood in the oil and gas sector was reflected in data for capital investment intentions, with a 4% decrease expected this year in the mining, quarrying and oil and gas extraction sector. We’ve revised our estimate for Alberta’s real GDP growth in 2018 to 1.7% from 2.4%. Growth will slow further to 1.3% in 2019, although Alberta should lead Canada growing by 2.6% in 2020 once market access improves.

### British Columbia: Home resales

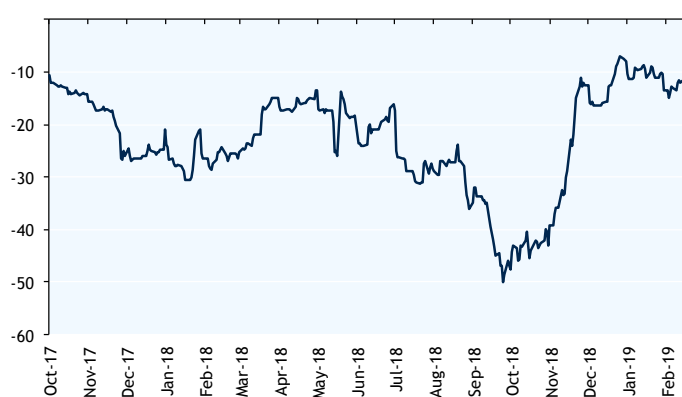
Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

### WCS Oil Price Spread to WTI

US\$ difference from West Texas Intermediate Benchmark



Source: Bloomberg, RBC Economics Research

## Drier conditions in Saskatchewan

We’ve scaled back our outlook for Saskatchewan to 0.9% in 2018 because of lower investment in construction (both residential and non-residential) and weaker oil prices. A sluggish labour market weighed on consumer spending last year, and vehicle sales fell almost 11%—the sharpest decline in the country. The indefinite shutdown of the McArthur River uranium mine means the outlook for mining and overall growth in 2019 is lower than we previously expected, and we’ve cut our forecast to 1.2% for 2019 from 1.6% previously. Capital spending is slated to decline.

Manitoba’s economy is set to keep pace with the Canadian average at 1.5% in 2019 followed by a brisker 1.7% pace in 2020. Strong exports—they grew by more than 11% in 2018—offset some of the weakness in the agriculture, mining and construction sectors in 2018. However, capital spending is set to fall by 5% this year with most of the decline in the utilities sector as spending on the Keeyask generating station project slows. Additional investment in mining, quarrying, oil and gas extraction will lend support to the economy this year.

## Central Canada in late stages of cycle

The economies in Ontario and Quebec will expand at a more restrained pace in 2019 as a key source of growth, the consumer sector, grapples with higher interest rates. Both economies also have limited spare capacity in the labour market—Quebec’s unemployment rate fell to a record low in 2018 while Ontario’s unemployment rate slipped to the lowest level in almost two decades. Quebec came in second-highest in capital investment intentions growth for 2019, and will see its manufacturing sector lead after two years of declines. Some of the investment growth in the manufacturing sector could be in response to the federal government’s announcement of the



capital spending accelerated write-off in the Fall Economic Statement 2018. Quebec also instituted an additional capital cost allowance of 30% to improve the province's competitiveness. We forecast Quebec's economy to grow at 1.6% both in 2019 and 2020. Capital spending growth in Ontario will be centered on the utilities sector, where spending will increase 17% following three years of decline. Ontario's housing market showed signs of moderation over 2018 and in early 2019, and we expect sales activity will stay at these lower levels this year. Growth in Ontario is forecast to slow to 1.7% in 2019 followed by 1.6% in 2020.

## **Newfoundland & Labrador to lead Atlantic Canada in 2019**

In eastern Canada, we expect Newfoundland and Labrador's economy to bounce back after contracting last year. We project real GDP growth of 2.3% in 2019—the second-highest pace in the country. We revised down our 2018 forecast to show a contraction of 2.1% on weaker mining output (mineral shipments were down 19.3% in 2018) and the winding down of capital projects—particularly the hydroelectric generating facility at Muskrat Falls. The province will get a reprieve this year due to growing production at the Hebron offshore platform and an investment boost from the Husky's White Rose project construction. Capital expenditures overall will decline slightly in 2019, but only because of the government's commitment to spending restraint. Private spending will increase by 13% after three years of decline, with most of the spending occurring in the mining and oil and gas sector.

Prince Edward Island will beat the national average, with the economy projected to grow 1.7% in 2019 and slow modestly to 1.4% in 2020. PEI has the distinction of being the Atlantic province with the highest growth in capital spending intentions in 2019. It was also the only province to see a rise in the labour force participation rate as strong population growth (through immigration) gave the labour market a boost. Both Nova Scotia and New Brunswick will continue to see growth in line with their potential growth of 0.6% and 0.5% respectively. New Brunswick is the only other Atlantic province (apart from PEI) to see business investment increase in 2019, with utilities and agriculture leading the growth. Nova Scotia saw its merchandise exports increase by 7% in 2018 to \$5.7 billion—the highest level in a decade. However, its capital-spending intentions are the lowest in Canada this year, with a sharp drop of 5.8%.


**Forecast details**

% change unless otherwise indicated

	Real GDP				Nominal GDP				Employment				Unemployment				Housing starts				Retail sales				CPI			
	17	18F	19F	20F	17	18F	19F	20F	17	18	19F	20F	17	18	19F	20F	17	18	19F	20F	17	18	19F	20F	17	18	19F	20F
N.&L.	0.9	-2.1	2.3	0.4	4.3	3.6	2.6	2.9	-3.7	0.5	0.6	-0.5	14.8	13.8	13.2	14.0	1.4	1.1	1.0	1.4	2.4	-2.3	1.5	1.7	2.4	1.7	1.4	2.6
P.E.I.	3.5	1.6	1.7	1.4	4.8	2.4	2.9	3.6	3.1	3.0	1.0	0.8	9.8	9.4	9.1	8.9	0.9	1.1	0.7	0.8	6.3	3.6	3.0	3.6	1.8	2.3	1.4	2.7
N.S.	1.5	0.9	0.6	0.8	2.9	1.9	1.6	2.8	0.6	1.5	0.7	0.4	8.4	7.6	7.2	7.2	4.0	4.8	4.0	3.6	7.8	1.2	2.9	3.2	1.1	2.2	1.8	2.7
N.B.	1.8	0.9	0.5	0.8	4.3	1.9	1.5	2.6	0.4	0.3	0.2	0.3	8.1	8.0	7.6	7.4	2.3	2.3	2.1	2.3	6.8	1.3	2.6	2.9	2.3	2.2	1.6	2.6
QUE.	2.8	2.2	1.6	1.6	5.0	4.2	2.9	3.4	2.2	0.9	0.9	0.5	6.1	5.4	5.6	5.8	46.5	46.9	47.4	41.5	5.5	3.3	3.0	3.5	1.1	1.7	1.4	2.5
ONT.	2.8	2.3	1.7	1.6	4.1	3.4	3.0	3.6	1.8	1.6	1.3	0.6	6.0	5.6	5.5	5.8	79.1	78.7	73.1	71.0	7.7	3.9	3.3	3.6	1.7	2.4	1.5	2.4
MAN.	3.2	1.3	1.5	1.7	5.4	2.7	2.3	4.0	1.7	0.6	1.1	0.5	5.4	6.0	5.9	6.0	7.5	7.4	5.5	5.1	7.8	0.3	2.9	3.5	1.6	2.5	2.0	2.5
SASK.	2.2	0.9	1.2	2.2	4.8	4.0	1.4	4.9	-0.2	0.4	0.4	0.4	6.3	6.1	5.7	5.7	4.9	3.6	4.0	5.3	4.1	-0.5	1.7	2.9	1.7	2.3	2.1	2.9
ALTA.	4.4	1.7	1.3	2.6	10.0	4.0	0.2	6.7	1.0	1.9	0.7	0.8	7.8	6.7	7.0	6.5	29.5	26.1	24.6	27.0	7.1	1.7	1.8	3.3	1.5	2.5	1.4	2.2
B.C.	3.8	1.7	2.5	2.5	6.9	4.1	3.9	4.9	3.7	1.1	1.8	0.7	5.1	4.7	4.6	4.8	43.7	40.9	36.9	34.0	9.3	2.0	3.7	3.9	2.1	2.7	1.8	2.2
CANADA	3.0	1.8	1.5	1.8	5.6	3.6	2.1	4.2	1.9	1.3	1.2	0.5	6.3	5.8	5.9	6.0	220	213	199	192	7.1	2.7	3.0	3.5	1.6	2.3	1.6	2.4

**Key provincial comparisons**

(2017 unless otherwise stated)

	Canada	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Population (000s)	37,059	525	153	960	771	8,390	14,323	1,352	1,162	4,307	4,992
Gross domestic product (\$ billions)	2,137.5	33.1	6.7	42.7	36.1	417.2	825.8	71.0	79.5	331.9	282.2
Real GDP (\$2007 billions)	2,016.4	33.8	6.1	39.5	32.9	383.1	761.3	66.6	85.5	336.8	256.9
Share of provincial GDP of Canadian GDP (%)	100.0	1.6	0.3	2.0	1.7	19.6	39.1	3.3	3.7	14.9	13.0
Real GDP growth (CAGR, 2012-17, %)	2.0	1.1	1.7	0.8	0.7	1.6	2.3	2.2	1.9	1.5	3.0
Real GDP per capita (\$ 2007)	55,184	63,967	40,241	41,508	42,924	46,175	54,103	49,870	74,329	79,353	52,188
Real GDP growth rate per capita (CAGR, 2013-18, %)	0.8	-0.3	0.4	0.7	0.7	1.1	1.3	0.5	-0.3	-0.9	1.4
Personal disposable income per capita (\$)	32,300	31,996	28,997	28,978	29,261	28,785	32,645	29,603	32,973	36,705	34,976
Employment growth (CAGR, 2013-18, %)	-1.1	1.5	-0.5	-0.1	0.0	-1.0	-1.2	-0.7	-0.2	-0.9	-1.9
Employment rate (Feb. 2019, %)	62.0	52.3	59.0	58.1	56.7	61.4	61.3	63.4	64.8	66.5	62.6
Discomfort index (inflation + unemp. rate, Jan. 2019)	7.2	11.5	10.3	8.0	9.3	6.4	7.2	6.9	6.2	8.0	7.1
Manufacturing industry output (% of GDP, 2017)	10.4	4.6	10.5	7.6	11.0	14.0	12.2	9.7	6.1	8.3	7.1
Personal expenditures on goods & services (% of GDP)	56.4	51.3	67.7	71.4	64.8	58.3	57.4	57.2	47.4	46.5	63.7
International exports (% of GDP)	31.0	33.8	24.1	17.1	38.9	28.1	34.5	23.8	39.5	32.8	23.8

Source: Statistics Canada, RBC Economics Research



## Forecast Details

% change unless otherwise specified

### British Columbia

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	2.5	2.2	3.7	2.1	3.2	3.8	1.7	2.5	2.5
Nominal GDP	2.1	3.4	5.7	2.9	6.0	6.9	4.1	3.9	4.9
Employment	1.6	0.1	0.6	1.2	3.2	3.7	1.1	1.8	0.7
Unemployment Rate (%)	6.8	6.6	6.1	6.2	6.0	5.1	4.7	4.7	4.8
Retail Sales	1.9	2.8	6.3	7.0	7.7	9.3	2.0	3.7	3.9
Housing Starts (Thousands of Units)	27.5	27.1	28.4	31.4	41.8	43.7	40.9	36.9	34.0
Consumer Price Index	1.1	-0.1	1.0	1.1	1.9	2.1	2.7	1.8	2.2

### Alberta

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	3.9	5.7	5.9	-3.7	-4.2	4.4	1.7	1.3	2.6
Nominal GDP	4.3	9.6	10.0	-14.0	-6.8	10.0	4.0	0.2	6.7
Employment	3.5	2.5	2.2	1.2	-1.6	1.0	1.9	0.7	0.8
Unemployment Rate (%)	4.6	4.6	4.7	6.0	8.1	7.8	6.6	6.9	6.5
Retail Sales	6.9	7.2	7.9	-4.0	-1.1	7.1	1.7	1.8	3.3
Housing Starts (Thousands of Units)	33.4	36.0	40.6	37.3	24.5	29.5	26.1	24.6	27.0
Consumer Price Index	1.1	1.4	2.6	1.2	1.1	1.5	2.5	1.4	2.2

### Saskatchewan

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.7	6.5	2.0	-0.9	-0.4	2.2	0.9	1.2	2.2
Nominal GDP	4.2	6.7	-0.4	-3.9	-4.8	4.8	4.0	1.4	4.9
Employment	2.4	3.1	1.0	0.5	-0.9	-0.2	0.4	0.4	0.4
Unemployment Rate (%)	4.7	4.1	3.8	5.0	6.3	6.3	6.1	5.7	5.7
Retail Sales	7.3	5.2	4.7	-3.3	1.5	4.1	-0.5	1.7	2.9
Housing Starts (Thousands of Units)	10.0	8.3	8.3	5.1	4.8	4.9	3.6	4.0	5.3
Consumer Price Index	1.6	1.4	2.4	1.6	1.1	1.7	2.3	2.1	2.9

### Manitoba

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	3.0	2.9	2.1	1.2	1.6	3.2	1.3	1.5	1.7
Nominal GDP	6.4	4.2	3.1	2.6	2.3	5.4	2.7	2.3	4.0
Employment	1.6	0.7	0.1	1.6	-0.4	1.7	0.6	1.1	0.5
Unemployment Rate (%)	5.3	5.4	5.4	5.6	6.1	5.4	6.0	6.0	6.0
Retail Sales	1.0	3.8	4.2	1.3	3.7	7.8	0.3	2.9	3.5
Housing Starts (Thousands of Units)	7.2	7.5	6.2	5.5	5.3	7.5	7.4	5.5	5.1
Consumer Price Index	1.6	2.3	1.8	1.2	1.3	1.6	2.5	2.0	2.5

### Ontario

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.3	1.4	2.5	2.5	2.3	2.8	2.3	1.7	1.6
Nominal GDP	3.1	2.2	4.4	4.6	4.4	4.1	3.4	3.0	3.6
Employment	0.7	1.8	0.8	0.7	1.1	1.8	1.6	1.3	0.6
Unemployment Rate (%)	7.9	7.6	7.3	6.8	6.5	6.0	5.6	5.5	5.8
Retail Sales	1.6	2.7	5.7	5.3	6.9	7.7	3.9	3.3	3.6
Housing Starts (Thousands of Units)	76.7	61.1	59.1	70.2	75.0	79.1	78.7	73.1	71.0
Consumer Price Index	1.4	1.1	2.3	1.2	1.8	1.7	2.4	1.5	2.4



## Forecast Details

% change unless otherwise specified

### Quebec

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.0	1.3	1.6	0.9	1.4	2.8	2.2	1.6	1.6
Nominal GDP	2.7	3.0	3.0	2.9	2.8	5.0	4.2	2.9	3.4
Employment	0.8	1.4	0.0	0.9	0.9	2.2	0.9	0.9	0.5
Unemployment Rate (%)	7.7	7.6	7.7	7.6	7.1	6.1	5.5	5.6	5.8
Retail Sales	1.2	3.0	2.6	1.9	6.6	5.5	3.3	3.0	3.5
Housing Starts (Thousands of Units)	47.4	37.8	38.8	37.9	38.9	46.5	46.9	47.4	41.5
Consumer Price Index	2.1	0.8	1.4	1.1	0.7	1.1	1.7	1.4	2.5

### New Brunswick

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	-1.1	-0.3	0.1	0.7	1.4	1.8	0.9	0.5	0.8
Nominal GDP	0.7	0.3	1.8	3.1	3.6	4.3	1.9	1.5	2.6
Employment	-0.7	0.4	-0.2	-0.6	-0.1	0.4	0.3	0.2	0.3
Unemployment Rate (%)	10.2	10.3	10.0	9.8	9.6	8.1	8.0	7.6	7.4
Retail Sales	-0.9	0.7	3.7	2.2	2.1	6.8	1.3	2.6	2.9
Housing Starts (Thousands of Units)	3.3	2.8	2.3	2.0	1.8	2.3	2.3	2.1	2.3
Consumer Price Index	1.7	0.8	1.5	0.5	2.2	2.3	2.2	1.6	2.6

### Nova Scotia

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	-1.0	-0.4	1.0	0.7	1.5	1.5	0.9	0.6	0.8
Nominal GDP	0.5	2.1	2.9	2.2	2.2	2.9	1.9	1.6	2.8
Employment	1.0	-1.1	-1.1	0.1	-0.4	0.6	1.5	0.7	0.4
Unemployment Rate (%)	9.1	9.1	8.9	8.6	8.3	8.4	7.6	7.3	7.2
Retail Sales	0.9	3.2	2.8	0.2	4.7	7.8	1.2	2.9	3.2
Housing Starts (Thousands of Units)	4.5	3.9	3.1	3.8	3.8	4.0	4.8	4.0	3.6
Consumer Price Index	1.9	1.2	1.7	0.4	1.2	1.1	2.2	1.8	2.7

### Prince Edward Island

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	1.0	1.8	0.2	1.3	1.8	3.5	1.6	1.7	1.4
Nominal GDP	2.7	3.2	1.7	3.9	4.5	4.8	2.4	2.9	3.6
Employment	1.7	1.4	-0.1	-1.2	-2.2	3.1	3.0	1.0	0.8
Unemployment Rate (%)	11.1	11.5	10.6	10.5	10.8	9.8	9.4	9.1	8.9
Retail Sales	3.0	0.9	3.5	2.6	7.3	6.3	3.6	3.0	3.6
Housing Starts (Thousands of Units)	0.9	0.6	0.5	0.6	0.6	0.9	1.1	0.7	0.8
Consumer Price Index	2.0	2.0	1.6	-0.6	1.2	1.8	2.3	1.4	2.7

### Newfoundland and Labrador

	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP	-4.4	5.3	-1.2	-1.2	1.8	0.9	-2.1	2.3	0.4
Nominal GDP	-4.5	7.6	-0.5	-9.2	1.8	4.3	3.6	2.6	2.9
Employment	3.8	0.8	-1.7	-1.0	-1.5	-3.7	0.5	0.6	-0.5
Unemployment Rate (%)	12.3	11.6	11.9	12.8	13.4	14.8	13.8	13.4	14.0
Retail Sales	4.3	5.2	3.7	0.7	0.4	2.4	-2.3	1.5	1.7
Housing Starts (Thousands of Units)	3.9	2.9	2.1	1.7	1.4	1.4	1.1	1.0	1.4
Consumer Price Index	2.1	1.7	1.9	0.4	2.7	2.4	1.7	1.4	2.6