

PRELIMINARY ESTIMATES 2017 PROVINCIAL GROWTH

May 4, 2018

2017 provincial growth surprises on the upside

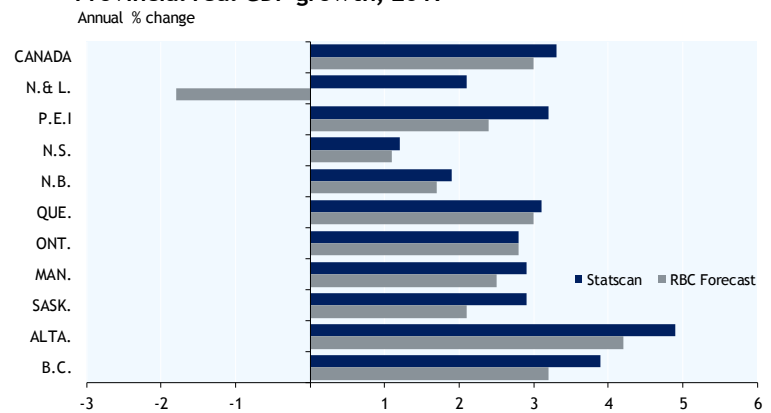
Statistics Canada released provincial growth numbers this week on an industry-output basis. This data provides an initial indication of where official, expenditure-based growth numbers for the provinces will land when they are released in November. The breakdown by expenditure better aligns with how the Canadian national GDP growth numbers are usually quoted and thus are viewed as providing the official estimates of provincial growth.

The divergence of annual Canadian GDP growth on an industry basis versus an expenditure basis is usually within ½ of a percentage point. As a result the data released yesterday provides a relatively good guide as to what the official provincial growth numbers are likely to show. It is the case that the Canadian GDP growth numbers on an industry basis in 2017 was estimated at 3.3% versus the 3.0% reported on an expenditure basis. RBC's provincial forecast is anticipating what the official GDP growth numbers will show. Thus though most of the provincial growth numbers released yesterday were slightly higher than what was indicated in RBC Economics' most recent provincial outlook, our expectation is that forecast error will in most cases be eliminated once the expenditure based provincial GDP growth numbers are released in November

As the chart below suggests, this week's data generally confirmed RBC's growth outlook with Western Canada outperforming the rest of the country. Specifically, Alberta and British Columbia led growth among the provinces. Alberta's strength largely reflected the rebound in the energy sector following marked weakness in 2015 and 2016 in the wake of the slide in oil prices. The strength in B.C. was in part a reflection of the booming housing market supporting both real estate activity and new construction. The other major oil-producing province, Saskatchewan, did not reflect the recovery in the energy sector to the same extent as Alberta with activity weighed down by a decline in agriculture. In contrast the crop production in Manitoba rose strongly with the province not having to contend with the dry conditions that impacted Saskatchewan. Manitoba also benefitted from a solid increase in construction activity.

Ontario and Quebec generally increased close to the national growth rate and in line with that assumed in RBC's provincial outlook. In Quebec, consumer-related sectors and manufacturing were responsible for nearly half of the province's growth. Consumers also made a large contribution to Ontario's growth, but the housing market also had a role to play with strong growth in construction and real estate. The province's financial sector and professional services also made a sizeable contribution.

Provincial real GDP growth, 2017



Sources: Statistics Canada, RBC Economic Research

	Real GDP Growth 2017	
	Statscan (industry basis)	RBC (expenditure basis)
CANADA	3.3	3.0
N. & L.	2.1	-1.8
P.E.I.	3.2	2.4
N.S.	1.2	1.1
N.B.	1.9	1.7
QUE.	3.1	3.0
ONT.	2.8	2.8
MAN.	2.9	2.5
SASK.	2.9	2.1
ALTA.	4.9	4.2
B.C.	3.9	3.2



Continuing a long-standing trend, all Atlantic Provinces grew below the national average. Activity in PEI was the strongest since 2006 supported by strong manufacturing and construction sectors with spillovers to real estate. Growth in Nova Scotia and New Brunswick on average increased by one-half of the national rate. These gains rested on the consumer who drove strong increases in the retail and wholesale sectors. Construction and manufacturing added too, but to a lesser extent. The biggest surprise in the Statistics Canada release was Newfoundland and Labrador with a projected growth rate of 2.1% versus our forecast of a 1.8% decline. As always with big forecast misses on the Rock, the province's large oil and gas sector was the culprit accounting for three-quarters of provincial growth on an industry basis. Our forecast had assumed a much slower rebound in oil production and sharper falloff in capital spending.