Canada Day Economics

Happy Canada Day! Like a bold red & white t-shirt,
the current economic data looks good on us, especially in Western Canada.

As Canada Day weekend approaches, we provide this timely, and broadly favorable economic news, (especially for western provinces), courtesy of RBC Economics.

Western Canada, subject to oil prices holding value, holds the card for the stronger rate of growth that we project for the national economy for the remainder of 2017. Recoveries in Alberta and Saskatchewan should be the primary factor boosting Canada's growth from 1.5% last year to 2.6% this year. These recoveries along with continued expansion in British Columbia and Manitoba will allow western provinces as a group to contribute to Canada's economic growth for the first time in three years. We maintain British Columbia, at the top of our provincial growth rankings for the third consecutive year.

Steady as she goes in Central Canada

We see little that would throw the economies of Ontario and Quebec off last year's course. We expect consumers, who have been a force to reckon with lately, to continue to be a significant source of growth. Governments will also pitch in with significant infrastructure investment and other spending and tax measures, while exporters will find growing opportunities abroad. We expect sanity to return in Ontario's housing market.

Demographic boost to fade in Atlantic Canada

We project growth slowing across the Atlantic region with Newfoundland and Labrador seeing activity contracting again after a short break last year. The expected slowing of the pace in some cases reflects a diminishing contribution from major capital projects as construction work winds down. More generally, it reflects our view that the boosting effect of last year's immigration wave across the region will fade this year.

BC Keeping the lead after all

Not even a 40% correction in the Vancouver housing market seems to rattle the province much. With so few signs of a slowdown out there, our previous forecasted growth rate of 1.9% for 2017 looks overly pessimistic, and has been boosted to 3.0%. This keeps BC at the top of our provincial growth rankings for the third consecutive year. Yet we continue to expect that housing-related activity will contribute less to BC's expansion. The softwood lumber trade conflict with the US will weigh on provincial exports and the manufacturing sector. For these reasons, our view is that growth will moderate from the super-charged rate of 3.6% in 2016—a 10-year high to 1.8% 2018, when we see renewed downward pressure on the housing market emerging in the face of rising interest rates.

Hard pressed to find signs of a slowdown

The BC labour market has been robust. Employment growth, at 3.6%, is spectacular—far stronger than in any other province. BC has the second-lowest jobless rate (5.6% as of May) in the country after Manitoba. Population growth is at a 7-year high thanks to wave of migrants coming from abroad and other provinces. Sales of provincial retailers, wholesalers, manufacturers and restaurants continue to grow briskly—still lead the country in annual growth or ranking close to the top. Residential construction activity remains exceptionally strong even though housing starts have come off their 23-year high recorded last year.

BC Housing correction: is this it?

The latest news on the BC housing market indicates that last year's downturn may have run its course. We see evidence that home resale activity in the Vancouver area, for example, has picked up this spring and that prices have begun to firm up again. Our view now is that the market will continue to recover gradually through the remainder of this year. This means that we no longer expect the housing sector to weigh on economic growth as much as we thought previously. Still, we see clouds forming over BC housing market again next year when we anticipate interest rates beginning to rise in Canada.

Major construction projects at risk?
The economic implications of the May 9 provincial election aren't fully clear at this point but risks have increased for a couple of major capital projects in the province. The likelihood of a coalition government between the NDP and Green party puts into question the earlier nods given by the incumbent Liberal government to the $8.3 billion Site C hydroelectric dam and $7.4 billion Trans Mountain pipeline expansion. Under a pact signed at the end of May, an NDP-Greens coalition government would "employ every tool available" to stop the expansion of pipeline and ask for further regulatory review of the dam project. The risks to the economy of any delays or shelving of these projects are more about the medium to longer term prospects than an immediate hit. In both cases construction work was scheduled to be on a lower gear this year.

Risks still abound
Much of our turnaround story in Alberta and Saskatchewan rests on oil prices continuing to recover, and could be de-railed if global oil prices steadily weaken again. Increased protectionist sentiments in the US pose a substantial risk to all provinces, and the upcoming renegotiation of NAFTA no doubt will generate a lot of uncertainty. The softwood lumber trade dispute poses an immediate threat to forest-dependent communities in BC and Quebec in particular.

All things considered, where on earth would you rather be than this peaceful, beautiful, prosperous, fair-minded land? And where better in the summer than the central interior of BC? Not too hot, not too cool. Just right!

Happy Canada Day!

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