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Executive Summary

Long Term Forecast – Provincial Outlook **2003 Edition**

Executive Summary *Paul Darby*

Highlights

- The national economy is expected to experience average growth of 2.6 per cent over the 2001–20 period, in line with underlying potential growth.
- At 2.7 per cent, growth will be strongest in Alberta and Ontario. Alberta will benefit from rising oil prices, an immense non-conventional oil supply and better extraction technology, while relatively strong demographics and solid export performance help Ontario.
- British Columbia and P.E.I. will both post, over the long term, relatively strong growth as the ageing population treats these provinces as retirement havens.
- Declining population will make Newfoundland and Labrador the slowest-growing province over the 2002–20 period.
- Weak demographics will also constrain growth in New Brunswick, Nova Scotia, Manitoba and Saskatchewan.
- Quebec is forecast to average annual growth of 2.4 per cent over the 2002–20 period as strong construction spending and good export performance help to offset the effects of very slow population growth.

National Overview

Recent Canadian economic performance has been stellar, especially with regard to job growth during the recovery in 2002 from the 2001 slowdown. Considerable monetary stimulus has enabled Canada to rebound quickly, but the U.S. economy has responded more slowly. U.S. investor confidence has been pummelled by U.S. corporate accounting scandals, the threat of war in Iraq, and the sluggish economic recovery. Consequently, U.S. corporations have failed to ramp up investment activity and there has been no net new job creation in 2002. The weak U.S. recovery is based mainly on consumer spending, and as household finances South of the Border become increasingly stretched, there is some risk that the U.S. recovery could falter, hurting Canada's near-term prospects. However, as the U.S. expansion continues and corporate earnings recover, there will be a rebound in investment activity and hiring, rescuing the U.S. recovery.

The life thus injected into U.S. domestic demand in 2003 will sustain Canadian export growth and maintain momentum in Canadian domestic demand. Growth is forecast to average 3.5 per cent from 2002–2004, enough to eliminate the output gap by the latter half of 2003. Worried about the possibility of inflationary pressures, the Bank of Canada is forecast to remove the considerable monetary stimulus presently in the economy and raise short-term interest rates by 225 basis points during 2003 in an effort to rein in growth to a sustainable pace. This monetary tightening and a somewhat lower U.S. growth pace will produce average growth of 2.6 per cent in the 2005–07 period.

The Canadian economy will experience a gradual deceleration in growth over the long term. Constraining the outlook through 2020 will be the growth capacity of the economy, mainly because of slower population growth and the effects of an ageing population on income and spending patterns. At the same time, the pace of business investment in plant and equipment is expected to abate, a direct consequence of the slowing rate of technological change. A concomitant slowing in the productivity of capital will outweigh an increase in labour productivity over the long term. Over the 2002-10 period, the Canadian economy is expected to match the average growth pace of 2.8 per cent attained between 1990 and 2000, but then to post only 2.3 per cent growth on average in the final 10 years of the forecast.

The latter half of the 1990s saw a tremendous global surge in the penetration of digital technology. The Canadian economy has not been untouched by this phenomenon and as a result has undergone enormous structural change over the last six years. Real private sector machinery and equipment expenditures stood at $47 billion in 1994; equipment spending had almost doubled in real terms by 2000, reaching $89 billion. Imports of office equipment, valued at an inflation-adjusted $6.8 billion in 1994, swelled to over $30 billion by 2000, vaulting into second place among major import categories. This pace of structural change is unprecedented in the postwar period.

The implications of this modern-day revolution are profound and far-reaching. While its effects have perhaps been most significant on recent U.S. economic activity, its implications for Canada have also widespread. First, strong U.S. domestic demand has fuelled a decade-long surge in Canadian exports. Second, overall export growth has been enhanced by the rapid rise of Canada’s high-technology manufacturing sector. By 2000, real exports of office equipment were almost five times their 1994 level, roughly equivalent to export activity in each of the primary metals, lumber, and pulp and paper industries. Third, the high-flying U.S. dollar, tied as it is to the tech boom, has lowered the relative price of Canadian exports and Canadian labour, the latter attracting foreign direct investment to such traditional sectors as the auto industry. Finally, heavy investment in high-technology equipment has put downward pressure on the economy's cost structure and has enhanced Canada's total factor productivity growth, lifting medium-term potential growth.

The current long-term outlook explores the implications of this profound structural change as it unwinds over the long term. The prevailing excess capacity in the high-technology sector suggests that the heyday for high technology is already over, although current physical limits suggest a maturing of CPU technology in 2008 and a maturing in applications by 2014. Thus the current long-term forecast assumes that the extraordinary structural change of the past decade has already begun to wane and will unwind more fully between 2008 and 2014, with growth in investment and imports of equipment returning to trend levels.

The most striking development over the long term will be the ageing of the Canadian population. The postwar baby boom came to an end in the mid-1960s, and the fertility rate has been much lower since then. Consequently, the age distribution of the population will change considerably as the baby-boom generation progresses up the population pyramid. This will be particularly noticeable beyond 2010, when the share of the population over 65 climbs steeply. The most important implication of this demographic shift is an increasing constraint on labour force growth. Strong economic performance in recent years lowered the unemployment rate swiftly, and it currently hovers close to its 25-year low. Pressure on labour markets will intensify beyond 2005 as the oldest baby-boomers turn 55. Given the historical patterns of labour force participation by age group and labour productivity growth, the result would be a significant shortfall of workers by 2020 even with the relatively conservative trend annual output growth embodied in the forecast. Skilled workers would be in even shorter supply.

Several changes will occur in the marketplace to address the rising pressures. The tightening labour market, especially after 2005, is assumed to produce high real wage growth that in turn will lead firms to substitute capital for labour wherever feasible. Therefore, although growth in investment will slow as the technology sector matures, it will still remain robust over the next 20 years and labour productivity will improve dramatically. Moreover, workers eligible to retire will remain in the workforce to take advantage of higher real wages. The net result will be an unemployment rate that shrinks steadily to 5.4 per cent by 2020, and growth in labour productivity that accelerates from the current 1 per cent to 2 per cent by 2020.

The ageing population will bring many more challenges and changes to the long-term outlook. One of the more significant challenges is the burden that the high numbers of people over 65 will place on the health care system and thus on public finances. Moreover, particular pressure will be added in the latter years of the forecast as costs rise significantly for the 75+ age group. In addition, the changing age-structure will shrink the market for single-detached family dwellings through the entire forecast period. Yet, there will be a recovery in the number of people aged 0–14 beginning around 2012, as the grandchildren of the baby boom begin to arrive in heavy numbers. Provincial governments will once again feel the pressure of a surge in elementary school enrolment near the end of the long-term forecast.

Other important structural changes over the long term include an ever-shrinking role for producers of raw materials but a real increase in the prices of certain raw materials, including crude oil and forest products, as they become scarcer. Financial markets will come under pressure as baby-boomers move from the high-saving pre-retirement years to become low-saving senior citizens. Consumption of durable items such as autos and household furnishings will show little growth, while consumption of services will continue to expand in importance. For further details on the challenges that the Canadian economy will face over the next 20 years, see the full 2003 edition of *Canadian Outlook: Long-Term Forecast*.

Provincial Overview

Canada's four largest provinces and the smallest province will post the strongest economic growth over the long term, while considerable hurdles will, in general, impede growth in the other provinces. In the top two spots, Alberta and Ontario are expected to do particularly well. In 2003 Alberta will post the strongest growth among the provinces at 5.0 per cent as the oil patch recovers from the 2001–02 cyclical downturn. The energy sector will remain one of the main driving forces in Alberta over the forecast horizon, benefiting from rising oil prices, an immense non-conventional oil supply and better extraction technology. Ontario, Quebec and British Columbia, the provinces most affected by the U.S. slowdown since the beginning of the second half of 2000, will post better growth as the U.S. economy rebounds in 2003 and 2004. Over the longer term, both British Columbia and P.E.I. are expected to draw a significant number of Canada's ageing citizens, boosting the provinces' population growth and service sector output. Thanks to oil projects and the development of Voisey's Bay. Newfoundland and Labrador will post an annual average increase of 4.0 per cent in real gross domestic product (GDP) between 2002 and 2006. Nonetheless, continued population decline will drastically slow growth in the province's overall economy in the second decade of the forecast, so much so that the province's average growth rate will be much weaker than that of any other province over the 2002–20 period. At first glance, the 1.7 percentage point wedge separating the fastest and slowest growing provinces may not seem significant, but it becomes quite large when compounded over 20 years.

The key factors influencing the long-term performance of an economy are population growth, labour force productivity and investment patterns. Population growth will vary considerably from province to province, though all provinces will be dealing with a declining natural rate of increase. Moreover, although significant advances in communication technology have lessened the importance of location for many industries, intraprovincial and interprovincial population movements are expected to continue to be from smaller to larger centres, and net international migration will favour the larger provinces. These trends will lead to declining population in Newfoundland and New Brunswick in the last few years of the forecast and very weak population growth in Quebec, Manitoba and Saskatchewan.

Estimates of potential output have been generated for most provinces by adding estimated long-term trend labour force growth to trend labour productivity growth.

Detailed demographic analysis, an essential determinant of potential output, has been conducted for each of the provinces, taking into account their unique population characteristics over the long term. For Ontario and Quebec, more detailed calculations of potential output take into account growth in potential employment, the capital stock and total factor productivity. One clear result emerges from these estimates of potential output: potential output growth will decelerate in every province over the next 20 years. This general finding is mainly attributable to an ageing population, which will dampen growth in the trend labour force considerably in the second decade of the forecast.

Agriculture

Canada's agriculture industry is in the process of adapting to ongoing structural changes. Lower transportation subsidies have changed the cost structure for grain farmers in the Prairies since the mid-1990s and have resulted in greater concentration of ownership, changes to the crop mix and higher value-added products at home. As livestock producers have taken advantage of economies of scale, production in this industry too has become increasingly concentrated. At the same time, the international agriculture subsidy war is forcing lower-subsidy jurisdictions to be more efficient. A gradual global movement away from protectionism in agriculture markets is expected to further enhance Canada's export potential. As a relatively low cost producer, Canada is generally on a sound footing heading into the future.

Agricultural output will be shaped over the long term by developments in global demand and supply. The key factor determining demand will be population growth. The

United Nations projects global annual population growth to trend downward from 1.2 per cent in 2000 to around 0.9 per cent by 2020,[1] during that time Canadian exports are expected to shift to non-traditional, high population-growth markets. Moreover, upward pressure on agricultural commodity prices is expected to come from constraints on food supply and, by extension, on the supply of global arable land. This, in turn, is expected to spur productivity-enhancing research and development, including a greater reliance on genetically modified food. In addition, a growing Mexican middle-class combined with the greater access to the Mexican market under NAFTA will result in increased pork exports. China represents another potentially strong export market, especially once that country becomes part of the WTO. Consequently, growth in Canadian agriculture output is expected to exceed global population growth over the 2003–20 period, averaging 2.0 per cent per annum, compounded annually.

Fishing

Fisheries on both the east and west coasts are expected to face supply constraints over the long term. Mollusks and crustaceans dominate the east coast industry; but while fish species in these categories are more profitable than groundfish, on balance they generate fewer jobs. The east coast groundfish industry has shown little signs of improvement and appears to be a long way from a measurable recovery. Recent studies by the federal government indicate that since the moratorium on cod fishing was set there has yet to be any appreciable recovery in the cod stock. Meanwhile, the traditional west

[1] United Nations, *World Population Prospects: The 2000 Revision.* Figures quoted are the low- and high-growth scenarios. Probabilities were not attached for the various outcomes.

coast fishery is battling lower stocks, although it is unclear whether this phenomenon is temporary or permanent.

Four distinct phases of growth are expected during the forecast period, each driven primarily by developments on the east coast. First, the east coast shellfish industry is expected to enjoy favourable conditions over the medium term, generating overall annual growth to 2.0 per cent between 2003 and 2007. Growth will slow in the second phase, from 2008 to 2010, as the initial burst of activity in shellfish subsides and annual average expansion ease to 1.4 per cent. The ongoing moratorium on northern cod is expected to yield future dividends as a viable cod fishery finally emerges, producing average growth of 2.8 per cent from 2011 to 2016. Thereafter, growth is forecast to ease back to just 1.1 per cent. The assumption of a recovery in east coast groundfishery poses a risk to the forecast as growth will clearly be much lower without this feature. Continued growth of the aquaculture industry (which is classified under agriculture) is expected to buttress long-term job creation, but Canadian producers will face stiff competition from warm water aquaculture producers, particularly in South America.

Forestry

Among Canada's major industries, the forestry sector is expected to experience the slowest growth over the 2001–20 period. The full extent of this weakness will not be apparent in the first decade of the forecast period, as the sector will advance by an average of 2.6 per cent from 2003–2008, with output partly boosted by a resolution of the softwood lumber dispute. However, supply and demand factors will limit growth to 0.6

per cent compounded annually from 2008–2020. Consistent deceleration through this latter period will result in forestry output actually falling after 2018.

The most serious impediments to long-term growth in the forestry sector are on the supply side. The demands of an increasingly environmentally conscious public are expected to make regulators more restrictive, resulting in a reduction of annual total allowable cut in order to establish a sustainable level of harvest. British Columbia, Quebec, Ontario and New Brunswick have all announced plans that place substantial constraints on the total allowable cut over the long-term horizon.

On the demand side, decelerating population growth and falling rates of household formation paint a bleak outlook for housing, with housing starts declining steadily in Canada throughout the entire forecast period and housing starts remaining essentially constant in the United States. The poor housing outlook translates into weak lumber demand. Slow population growth in the developed world is also expected to dampen the demand for paper products. The possibility of a virtually paperless society, although not incorporated into the current forecast, poses a significant risk to the output of pulp and paper products over the long term.

Mining

The mining sector faces a bright future. With average annual compound growth of at 3.3 per cent over the 2003–20 period it will be well ahead of national average performance. The mining sector is divided into four industry sub-groupings: metals, non-metallic minerals, mineral fuels and services to the mining sector. Growth will be fairly evenly spread through the four categories over the long term.

Strong global demand for machinery and equipment and construction materials, together with robust growth in domestic auto sector production, will help power metal mining to growth of 3.3 per cent over the 2003–20 period. Depletion of worldwide stocks of Uranium and improving prospects for growth in the nuclear electricity generation sector will translate into improved Uranium out put growth. Growth in metal mining is forecast to maintain a consistent pace over the long term. New mines in Canada are expected to sustain domestic supply, led by development of a significant mineral deposit at Voisey's Bay in Labrador. Tighter global environmental restrictions on new mine development and the discovery of more cost-effective mines in other parts of the world pose a risk to the current forecast.

Non-metal mining will grow by 2.4 per cent over the 2003–20 period, driven primarily by the development of diamond mines in the Northwest Territories over the medium term. The prospects for Potash demand over the long term are also good, given that gradual erosion of soil nutrients will result in more intensive use of fertilizers.

World oil markets are expected to experience downward price pressure in the near term as the threat of Iraqi war recedes. Supply is forecast to continue outstripping demand in the near term, keeping the lid on price growth through 2005. However, this situation will reverse over the longer term, as growing demand puts pressure on supply and as the Organization of Petroleum Exporting Countries (OPEC) accounts for an increasing share of world oil production. Crude oil demand growth is forecast to be especially strong in developing countries, which will increase their share of world oil consumption from 33 per cent currently to 44 per cent by 2020. After falling to U.S.

$25.10 in 2004, the West Texas Intermediate crude oil price is projected to increase gradually to U.S. $45.40 by 2020.

Rising oil prices and dwindling supplies of conventional crude oil will shift the balance of Canadian energy markets toward non-conventional activities over the next 10 years. Significant new offshore production is scheduled in eastern Canada from the White Rose, Hebron and Terra Nova fields. Moreover, as conventional crude oil reserves drop dramatically early in the next decade, the focus will switch to synthetic crude production. As a result, the outlook assumes that roughly $34 billion will be invested in western Canada's tar sands over the forecast period. Close to $16 billion has already been spent in this sector since 1995. This forecast was made before the ratification of the Kyoto protocol, which introduce some downside risk to the tar sands investment profile. The output from the tar sands and east coast offshore production, together with Canada's known conventional reserves, are expected to keep Canada a net exporter of crude oil over the forecast period.

The AECO/NIT (Alberta Energy Company/Nova Inventory Transfer) spot price of natural gas hit an average low of U.S. $1.6 per million British thermal units (mmbtu) in February 2002 but quickly regained strength during the spring and has remained relatively high since then. The prospects for the natural gas industry will improve over the medium term, when the economic recovery in the United States gets fully under way in the last half of 2003. This will push up industrial demand for energy.

The North American natural gas market will continue to prosper over the long-term forecast horizon, with U.S. gas consumption growing on average by about 2 per cent per year until 2020. A large proportion of natural gas in the United States will be used for electricity generation, a sector expected to surpass industry as the largest consumer of natural gas in the country by the end of the forecast period. Plants fired by natural gas are being increasingly favoured over coal-fired plants as a result of lower cost and higher fuel efficiency as well as lower emissions.

The addition of new pipeline capacity, together with Canada's cost advantage, is expected to lift Canada's share of the U.S. natural gas market from 16 per cent in 2002 to 23 per cent by 2020. Gas exports are expected to increase at an average annual compound rate of 3.4 per cent between 2001 and 2020. This increase is in part the result of the construction of the Mackenzie Delta pipeline in the Northwest Territories, new pipeline capacity on the east coast, the environmental and efficiency advantages of natural gas over other competing fuels, and the enhanced substitution of gas and oil in the U.S. market.

Strong growth in energy investment over the long term will ensure steady long-term growth of mineral fuels output. After increasing by 5.7 per cent annually from 2003 to 2007, mineral fuels output is expected to post average annual growth of 2.7 per cent for the remainder of the forecast period.

Construction

Business non-energy non-residential construction investment collapsed in the early 1990s, falling by 40 per cent between 1989 and 1993. Burned by excessive activity in the late 1980s, non-residential construction companies that remain in business have taken a much more cautionary approach. Market conditions are currently balanced, and conditions will be ripe for strong non-residential investment activity when the economy recovers in 2003. Annual growth is forecast to average a solid 6.1 per cent in the 2003-04 period. However, a decline in the pace of overall aggregate demand growth is expected to lead to a slowdown in the growth of these capital outlays, with average annual compound growth of 3.9 per cent forecast for the 2004–20 period.

Recent shortages of energy supply in parts of North America have prompted Canadian utilities to consider medium-term investment projects. Hydro-Québec has plans for three facilities by 2007, totaling $2.5 billion. The recent decline in industrial production has taken the pressure off U.S. utilities for the moment, but the swift rebound forecast in 2003 will revive capacity concerns. In the long term, tighter continental capacity constraints and the U.S. transmission grids to Canadian power producers will create new investment requirements. As a result, the outlook includes additional spending of $5.3 billion by Hydro-Québec on five new generation projects, **plus** a facility on the Churchill River in Labrador totaling $3.7 billion and the $1.1 billion Wuskwatim project in Manitoba. These utility projects, adding to the significant tar sands and offshore oil and gas investments over the forecast period, together play a noticeable part in the long-term investment profile.

In contrast, the Canadian market for new housing is expected to decline steadily over the long term. This poor performance is a direct consequence of demographic developments between now and 2020. Alterations, renovations and repairs to the existing housing stock will account for all of the growth in total real residential investment, which is forecast to rise on average by 0.1 per cent annually from 2003–2020.

Manufacturing

The manufacturing sector will post the highest average growth among Canada's major industry groupings over the 2002–2020 period, at 3.8 per cent per annum, compounded annually. Following a decline of 4.0 in 2001, manufacturing output will rebound by 2.9 per cent in 2002 and grow by a respectable 4.0 per cent, compounded annually, over the 2003–2010 period.

In the second decade of the forecast, North American demographic trends are expected to constrain growth in manufacturing: the ageing population will dissipate the appetite for durable goods, and output will expand more slowly for furniture, appliances and autos. However, the low Canadian dollar, competitive cost structure, continued productivity gains and the advantages of multilateral trading agreements will together enable Canadian firms to continue increasing market share in the United States and to develop business in the Asia-Pacific region. All in all, the average rate of increase in the manufacturing sector will slow slightly to 3.8 per cent, compounded annually, over the 2010–20 period.

Service Sector

The shift in the age structure of the population is expected to boost domestic demand for services over the long term. A significant part of these services will be imported, given the continued improvement in global communication technology. Consequently, total imports of services are expected to outpace service exports, increasing the services trade deficit substantially. However, domestic service industries will also benefit from increased demand in the long term. Manufacturing sector performance is expected to drive growth in the transportation, wholesale trade and business services industries. The trend toward outsourcing of key elements of the business process will continue, ensuring steady growth in consulting services. The financial services industry is expected to post strong growth over the forecast as the growing numbers of senior citizens require wealth management services. However, at the same time, as demand for housing wanes, the real estate sector is expected to suffer lower demand for services. Overall, service sector output is forecast to increase by 2.3 per cent over the 2002–20 period, compounded annually.

Output of government-provided services is expected to rebound following the belt-tightening of the late-1990s. Growth was just 0.3 per cent between 1992 and 1999, the worst eight-year growth period since the 1960s. However, growth is expected to rise to a 2.7 per cent annual average from 2000–2005, marking the return of public spending growth. After 2005, public sector output will expand at a slower pace to the enc of the forecast period, averaging 1.8 per cent at compound annual rates from 2005–20.

Newfoundland and Labrador

Newfoundland and Labrador is expected to lag behind all other provinces in real gross domestic product (GDP) growth over the long term, advancing at an average annual compound growth rate of 1.7 per cent from 2001–2020. The key to this weakness is a gloomy population outlook, featuring a consistent drop in the province's population. Steady net migration to other provinces, combined with a low and declining natural rate of population increase, will perpetuate the population decline that began in 1994. Further, the national trend of an ageing population will be amplified in Newfoundland, constraining labour force growth and putting pressure on provincial government spending.

Natural resource development will have an impressive influence on GDP growth early in the forecast period. The Terra Nova, White Rose, and Hibernia oil projects and the development of Voisey's Bay will push real GDP growth to an average annual compound rate of 4 per cent between 2002 and 2006. Project construction and commissioning of the Terra Nova Floating Production Storage and Offloading (FPSO) facility was completed at the beginning of 2002 and production of oil ramped up quickly during the year, contributing significantly to real GDP growth in the province. Construction of the White Rose FPSO commenced at the end of 2002 and production of oil is slated for the end of 2005. Falling crude oil production through the second half of the forecast period will slow the province's real GDP growth.

Prince Edward Island

Prince Edward Island will experience favourable long-term growth, mainly as a result of positive demographics. Real gross domestic product (GDP) growth is expected to average 2.3 per cent, compounded annually, from 2001–2020. The growth will be driven by the good performance of the province's food processing, aerospace and tourism industries.

Population growth will profit from positive interprovincial in-migration, reinforcing the province's image as a retirement haven. Prince Edward Island will post the highest average population growth rate of all the Atlantic provinces, a demographic trend that will help sustain consumption growth in the long term. Growth in services spending will be particularly strong, as an ageing population tends to purchase relatively more services, such as health care and travel.

Nova Scotia

The Nova Scotia economy is anticipated to advance by an average of 2 per cent annually between 2002 and 2020, ranking it seventh among the ten provinces. Apart from manufacturing and offshore mining-related activities, growth in most parts of the provincial economy is expected to soften during the forecast period. Mining will be the fastest growing sector of the provincial economy, with growth in the production of mineral fuels and services incidental to mining, exceeding the national average. The second phase of the Sable Offshore Energy Project (SOEP) is under way, and the $1.8 billion Deep Panuke gas project is expected to take off in 2004. Moreover, the provincial economy could benefit from over $1.45 billion in commitments in exploratory licenses off the coast of Nova Scotia between now and 2007.

Nova Scotia will face a number of fundamental demographic challenges over the forecast period. First, there will be a gradual increase in the average age of the population as the baby-boomers inch closer to retirement. The ageing of the baby boomers will put enormous strain on the province's health care sector, as it requires more government spending for facilities and services. The ageing of the population will also result in a compositional shift in consumer spending as people buy fewer durable goods and consume more services. Second, low fertility rates and negative interprovincial migration will slow population growth in the province.

Weak demographic fundamentals are expected to dominate the population outlook, exerting a profound impact on the province's labour market and economic performance. Overall, economic growth is projected to reach an average of 2.6 per cent in the 2002–2005 period and to decelerate to 2.1 per cent between 2006 and 2010. The consequences of demographic change will add to the slowing of the economy in the last decade of the forecast. Growth in real gross domestic product (GDP) is expected to average 1.8 per cent between 2011 and 2015 and 1.6 per cent between 2016 and 2020.

New Brunswick

Ranking eighth among the ten provinces, New Brunswick's real gross domestic product (GDP) is projected to grow at a relatively slow average rate of 2 per cent between 2002 and 2020. Weakness in the construction industry will limit overall economic growth over the 2008–2020 period as the province grapples with the completion of megaprojects. In the medium term, however, we expect construction in the province to be boosted by upgrades at the Canaport Irving Oil Refinery and the Coleson Cove thermal generation plant, and the $400 million poured into construction of the Trans-Canada Highway between Fredericton and the border of Quebec. In addition, sturdy growth in manufacturing in the long term, with spin-off benefits to the transportation industry, will provide an offset to weak construction, allowing the overall economy to expand during the entire forecast period.

Weak demographic dynamics will dominate the outlook over the long term. First, the average age of the population will rise over the forecast period. As the proportion of those older than 65 increases, consumption patterns are expected to change for both government and consumers. Notably, spending on health care will have to rise to meet the changing needs of the ageing population. In addition, a rising net international inflow of migrants will be largely offset by a net interprovincial outflow of people to other parts of Canada. Finally, New Brunswick's fertility rate, one of the lowest in the country, will be a drag on the growth of the province’s population. Total population is projected to shrink every year between 2008 and 2020.

The weakening population outlook will have significant consequences for the province's labour market and overall economic growth. The Conference Board expects growth in real GDP to decelerate from an annual average of 2.3 per cent between 2002 and 2010 to 1.9 per cent for the 2011–2015 period and 1.6 per cent from 2016–2020.

Quebec

Quebec’s real gross domestic product (GDP) at market prices is expected to progress at a moderate 2.4 per cent, compound annual rate from 2002–2020, just above underlying potential growth of 2.1 per cent. Helped by a booming U.S. economy and vigorous domestic demand, economic growth in Quebec jumped to 3.6 per cent over the 1997–2000 period, up from a meagre 1.2 per cent between 1991 and 1995. After a slowdown in 2001 that hit the manufacturing and aerospace sectors especially hard, Quebec’s economy bounced back strongly in 2002 as a result of a booming construction sector, despite the continuing slowdown in the United States. Between 2003 and 2007, the expected recovery in the United States should help produce a 2.6 per cent average annual growth rate.

Economic growth will slow over the long term as an ageing baby-boom generation and a low fertility rate weaken population growth, reducing consumer expenditures and housing demand as a result. As the baby boomers reach retirement age, consumption will focus more on services, especially health care. Housing starts will fall steadily from 42,417 units in 2002 to approximately 20,600 units in 2020 as demographic factors weaken household formation. Real export growth, the pillar of robust economic activity in the late 1990s, will wane over the long term because of slowing U.S. growth and a stronger Canadian dollar. A slow decline in annual growth will characterize the last decade of the forecast, as average growth eases to 2.2 per cent.

Ontario

The Ontario economy will be one of the strongest among the provinces over the forecast period, expanding by a compound annual rate of 2.7 per cent between 2002 and 2020. After narrowly avoiding a recession in 2001, economic activity is expected to rebound strongly from 2002–2005 before stabilizing at or around the potential growth rate from 2006 onward.

In the late 1990s and 2000 the Ontario economy posted exceptional growth levels, fuelled by significant increases in consumption, exports, and investment in machinery and equipment. As a result, the output gap, which was negative throughout the 1990s, was closed by the end of 2000.

The slowdown in U.S. economic activity during 2001 was a severe drag on the province's economic picture in 2001, opening up another negative output gap. However, aggressive interest-rate cutting by both the Federal Reserve Board and the Bank of

Canada throughout 2001 paid dividends in 2002, as consumption, particularly of housing and autos, soared in both countries, providing a much-needed boost to the province's construction and export sectors. The strengthening of the U.S. economy should provide a further boost to growth in real gross domestic product (GDP), which is expected to be well above potential from 2002–2004, allowing the output gap to close once again.

Potential growth output is estimated to grow by 2.9 per cent per year on average over the 2002–2016 period and 2.5 per cent between 2017 and 2020. This compares with an annual average of 2.9 per cent from 2007–2016. Over the long term, two key factors will act to reduce the economy's capacity to expand. First, the proportion of retirees in the population will rise considerably, constraining long-term potential labour force growth. Second, the growth of total factor productivity is expected to slow as the forecast wears on, as it is assumed that the current pace of technological change will ease toward the end of the current decade.

Manitoba

Several factors lead us to expect a relatively healthy economy in Manitoba over the long term, including a diversifying and expanding manufacturing sector, good employment growth and a rebound in government spending. The average annual compound growth rate is expected to be 2.3 per cent between 2001 and 2020—less than the national rate of 2.6 per cent but slightly more than the 2.1 per cent expected in last year's long-term forecast.

Manitoba's long-term economic health will bring about a slowing in interprovincial out-migration and a strengthening of immigration, both of which will help offset a declining natural rate of increase. As a result, the population growth rate will hold steady over the forecast period. However, the low fertility rate of baby boomers will result in an ageing population plus a sharp deceleration in labour force growth. The ageing of the population will further strain an already overburdened health care sector, forcing the government to increasingly focus spending in this area.

Manufacturing will remain the strongest component of output over the 2001–2020 period, with 3.6 per cent growth compounded annually, slightly more than the 3.2 per cent expected last year. Mainly, because of two major mine expansions in the province, annual compound mining output is expected to grow by 3.1 per cent. The agriculture outlook is not as robust, with an annual compound growth rate of 1.9 per cent, slightly less than anticipated in last year's long-term forecast. Nevertheless, support in the form of the federal government's Agricultural Policy Framework (APF) and increasing global food demand hold out promise for a secure future in the agriculture sector.

Saskatchewan

Real compound annual gross domestic product (GDP) growth is forecast to be 1.9 per cent between 2001 and 2010 in Saskatchewan and 1.7 per cent between 2011 and 2020. This is well below the national growth rates of 2.7 per cent and 2.4 per cent during the two decades.

Since the elimination of the Crow rate subsidy in 1995, the agri-food industry has become increasingly important for farmers as an alternative to shipping grain. Partly as a result of the increased demand for agri-food production within Saskatchewan, the manufacturing sector is expected to grow at an annual compound growth rate of 2.5 per cent over the forecast period. In contrast, the primary agricultural sector's share of the Saskatchewan economy will fall slightly over the long term. Nevertheless, support in the form of the federal government's Agricultural Policy Framework (APF) and increasing global food demand promise a secure future for the sector, at a compound annual growth rate of 1.2 per cent between 2001 and 2020. At the same time, bright prospects for oil and gas, potash, uranium, and diamonds will help the mining sector grow by 3.4 per cent, compounded annually.

The province will face a number of fundamental changes over the next 20 years. First, the average age of the population will gradually increase. This will put an enormous strain on the province's health care sector and force the government to increase spending in order to rebuild and maintain health resources. The ageing of the population will also result in a compositional change in consumption. An older population tends to spend less on durable goods and more on services. Second, a relatively high fertility rate will be more than offset by continued steady interprovincial out-migration and weak international immigration. The result of this will be slower population growth, in turn resulting in low labour force growth.

Alberta

The Alberta economy is anticipated to advance solidly between 2002 and 2020, expanding by an average annual rate of 2.7 per cent. The energy sector will remain one of the main driving forces over the forecast horizon. Rising oil prices, an immense non-conventional oil supply and improved extraction technology have shifted the focus of the energy market to oil sands production. Long-term prospects for the non-conventional oil industry in Alberta are very favourable. Almost $28 billion worth of oil sands activities have been proposed by several major energy players for the 2002–2012 period and an additional $6.2 billion in oil sands development is slated over the remainder of the outlook. Close to $16 billion has been spent in the sector since 1995. Last year's sluggishness in natural gas markets is now behind us. The sector should do well over the long term as solid U.S demand from gas-fired electric-power generators will increase steadily. Natural gas trade between Canada and the United States will continue to expand, as Canadian gas plays an increasingly important role in satisfying U.S. demand. Canada's share of the U.S. gas market is forecast to rise from its current 16 per cent to 23 per cent by 2020.

Although the long-term forecast for the province is favourable, an ageing population will take its toll. Total population growth is projected to weaken over the forecast, dampening demand for consumer goods and housing. However, a sound fiscal outlook and the positive job market will continue to attract companies and job seekers over the forecast period, boosting Alberta's relative population growth outlook. Overall, economic growth is expected to reach an average annual compound growth rate of 3.1 per cent in the first decade of this century before weaker demographic conditions slow the economy to 2.4 per cent growth on average in the 2016–20 period. This is roughly in line with underlying potential output growth.

The Alberta economy is anticipated to advance solidly over the 2001–20 period, expanding by an average annual rate of 3.2 per cent, the fastest pace in the country. The energy sector will remain one of the main driving forces of the economy over the forecast horizon in spite of short-term turbulence in global energy markets. Although oil prices have been volatile recently, this instability should dissipate in the near future. Rising oil prices, together with an immense non-conventional oil supply and better extraction technology, will shift the focus of the energy market to oil sands production. Long-term prospects for the non-conventional oil industry in Alberta are very favourable. More than $26 billion worth of oil sands activities has already been proposed by several energy players for the 2002–12 period, and an additional $5.7 billion in oil sands development is slated over the remainder of the outlook. Close to $9 billion has been spent in the sector since 1995. The recent sluggishness in natural gas markets is not an indication of long-term trends, and the sector should also do well over the next 20 years with solid U.S demand from electric power generators. Natural gas trade between Canada and the United States will continue to expand as Canadian gas plays an important role in satisfying U.S. demand. With additional export capacity, Canada's share of the U.S. gas market is set to rise from its current 16 per cent to 22 per cent by 2020.

Even with a favourable long-term forecast, Alberta is not immune from demographics. Total population growth is projected to weaken through the forecast, dampening demand for consumer goods and housing. However, the sound fiscal outlook and the positive job market will attract companies and job seekers over the forecast period, boosting Alberta's relative population growth outlook. Overall, economic growth is expected to reach an average annual compound rate of 3.4 per cent in the first decade of this century before weaker demographic conditions slow the economy to 2.9 per cent growth in the 2016–20 period, in line with underlying potential output growth.

British Columbia

Real gross domestic product (GDP) in British Columbia is forecast to grow at a compound annual rate of 2.6 per cent between 2002 and 2020. In 2002 and 2003, the economy will grow at approximately the long-term growth rate but more slowly than most other provinces. Real non-forestry export growth was negligible in 2002 as a result of the uneven recovery in United States after its contraction in 2001, continued weakness in the Japanese economy and plunging commodity prices. However, exports will rebound as the United States economy continues to strengthen. Domestically, net interprovincial migration will continue to constrain population growth in the province through 2005. The government sector will also hamper overall GDP growth as dramatic cuts are made in an effort to balance the provincial budget by fiscal 2004–2005.

Over the long term, demographic changes will act to moderate growth in British Columbia. Population growth will slow in the medium term despite a return to positive net interprovincial migration, as the ageing of the baby boomers dramatically changes the Province's age profile. Slower growth in domestic demand will also result from this shift, with consumer spending patterns and housing activity undergoing the most pronounced changes. Sluggish, population growth will register a nation-leading compound annual rate of 1.2 per cent from 2002–2020.

The province's key resource sector, forestry, is expected to turn in a mixed performance over the forecast period. The softwood lumber dispute between Canada and the United States and low pulp and newsprint prices created hardships for the forestry sector in 2002 and will continue to provide challenging market conditions until a resolution is reached and the U.S. economic recovery solidifies, strengthening demand for pulp and newsprint. The current outlook incorporates significant reductions to the annual allowable timber cut in the latter part of the forecast, leading to a weakening of real forestry output.

The Conference Board of Canada
Provincial Outlook
Long-Term Outlook - 2003 Edition
Forecast Completed: Dec. 06 2002

	2000	2001	2002	2003	2004	2005	2006	2007
G.D.P AT MARKET PRICES	14,320	14,053	15,724	16,622	17,222	17,661	18,902	19,652
(MILLIONS $)	14.6	-1.9	11.9	5.7	3.6	2.5	7.0	4.0
G.D.P AT FACTOR COST	13,036	12,724	14,241	15,058	15,595	15,962	17,126	17,796
(MILLIONS $)	15.8	-2.4	11.9	5.7	3.6	2.4	7.3	3.9
G.D.P AT FACTOR COST	11,343	11,503	12,622	13,024	13,220	13,415	13,981	14,225
(MILLIONS $ 1992)	5.7	1.4	9.7	3.2	1.5	1.5	4.2	1.7
CONSUMER PRICE INDEX (1992=1.0)	1.133	1.145	1.170	1.194	1.215	1.234	1.256	1.275
	3.0	1.1	2.2	2.0	1.8	1.6	1.8	1.5
IMPLICIT PRICE DEFLATOR -	1.149	1.107	1.128	1.156	1.180	1.190	1.225	1.251
GDP AT FACTOR COST (1992=1.0)	9.5	-3.7	1.9	2.5	2.0	0.9	3.0	2.1
AVERAGE WEEKLY WAGE	569	581	594	608	624	641	662	684
($, INDUSTRIAL COMPOSITE)	2.4	2.0	2.2	2.4	2.5	2.9	3.2	3.3
PERSONAL INCOME (MILLIONS $)	11,388	11,786	12,322	12,761	13,206	13,640	14,109	14,626
	5.5	3.5	4.5	3.6	3.5	3.3	3.4	3.7
PERSONAL DISPOSABLE INCOME	9,076	9,392	9,900	10,230	10,610	10,954	11,318	11,728
(MILLIONS $)	5.5	3.5	5.4	3.3	3.7	3.2	3.3	3.6
PERSONAL SAVINGS RATE	4.7	3.9	7.1	6.5	6.4	5.6	5.1	4.8
	0.7	-15.8	80.6	-8.5	-1.4	-12.2	-9.6	-5.6
POPULATION OF LABOUR	440	439	439	439	439	440	440	440
FORCE AGE	0.3	-0.1	-0.1	0.0	-0.0	0.2	0.1	-0.1
LABOUR FORCE ('000s)	246	252	257	256	256	256	257	258
	-0.2	2.6	2.0	-0.5	-0.1	0.2	0.4	0.3
EMPLOYMENT ('000s)	205	211	216	220	223	225	226	228
	0.0	3.3	2.3	1.7	1.3	0.8	0.5	1.2
UNEMPLOYMENT RATE	16.7	16.2	16.0	14.1	12.9	12.4	12.3	11.6
RETAIL SALES (MILLIONS $)	4,522	4,943	5,091	5,259	5,437	5,642	5,849	6,066
	7.1	9.3	3.0	3.3	3.4	3.8	3.7	3.7
HOUSING STARTS (NUMBER OF UNIT	1,459	1,788	2,099	1,695	1,493	1,354	1,213	1,113
	6.4	22.5	17.4	-19.2	-11.9	-9.3	-10.4	-8.2

Sources: Statistics Canada, CMHC,The Conference Board of Canada.