

Economic diversification (or lack thereof) on display in provinces

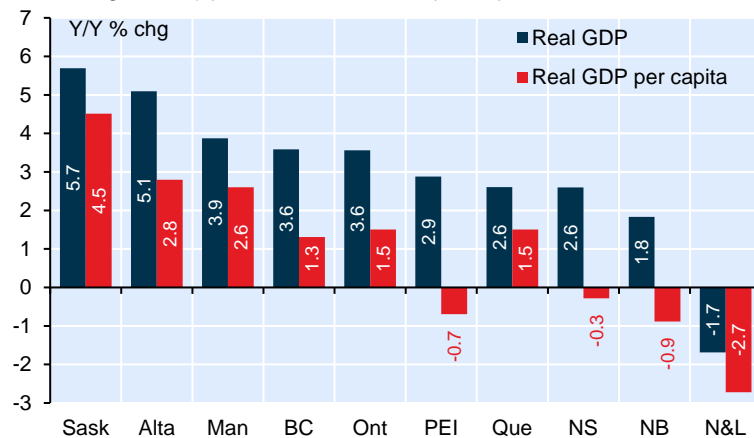
By Warren Lovely

Statistics Canada's provincial GDP by industry data shows most jurisdictions extending an economic recovery. All provinces enjoyed positive growth in 2022, save Newfoundland and Labrador, where reduced offshore oil production held activity back. Canada's two other oil-levered names stood atop the growth charts in 2022; real GDP surged 5.7% in Saskatchewan, while Alberta wasn't that far behind at 5.1%. StatCan provided some nice high-level commentary which we don't necessarily aim to replicate. We would, however, emphasize a few points:

- i) The impact of surging population counts is clear. With a powerful demographic impulse at play, it might be appropriate to key on per capita tallies where growth is more restrained. While the BoC may be reluctant to boost its assessment of potential growth, buoyant population gains (if sustained) have the potential to recast non-inflationary speed limits across the country. By slowing (or even turning back) the biological clock, a population surge can likewise bolster fiscal sustainability. In other words, pay attention to population patterns;
- ii) Notwithstanding the growth surge in Alberta and Saskatchewan, there was a relatively deeper hole to dig out of here. Thus, the extent of the pandemic recovery remains comparatively modest in more resource-intensive jurisdictions. As of 2022, the level of real GDP in Saskatchewan was still a touch below 2019 levels, while Alberta's three-year cumulative gain generally trailed less resource-intensive peers. Again, Newfoundland and Labrador is something of a special case, last year's real GDP slipping nearly 6% below 2019 levels;
- iii) It follows that industry concentration remains a key feature of the provincial economic landscape. At 31%, the energy sector comprises a larger share of Alberta's GDP than at any time in the post-GFC period. Elsewhere, British Columbia and Ontario have more of their economic eggs in the so-called 'FIRE' basket, made up of finance, insurance and real estate industries. That's consistent with relatively higher household debt-to-income ratios in these two provinces and suggests the adjustment to higher interest rates could bite harder;
- iv) Manitoba and Quebec continue to display relatively greater economic diversification (or less industry concentration). Not surprisingly, enhanced diversification has tended to result in less volatility in economic growth. While the relationship is imperfect, less-noisy growth can in turn contribute to budgetary stability and by extension reduced volatility in provincial credit spreads over time.

Chart 1: Population surge contributes to GDP growth

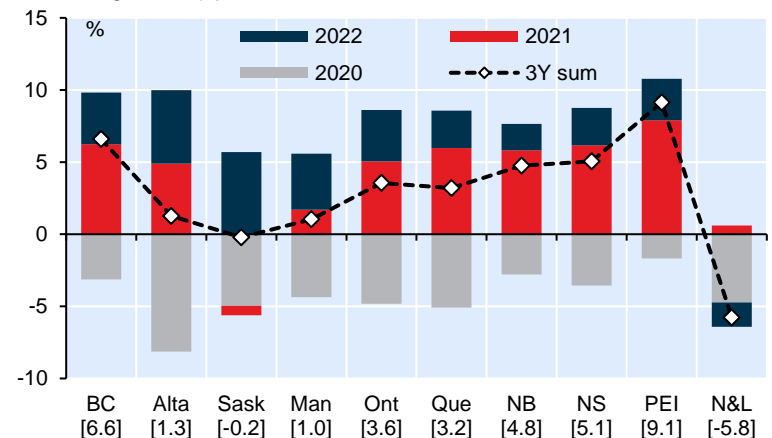
Real GDP growth by province in absolute & per capita terms: 2022



Source: NBF, StatCan | Note: Per capita growth based on annual population projections as at 1-Jul each year; ordered by 2022 real GDP growth (fastest to slowest)

Chart 2: Gauging extent of recovery vs. pre-COVID level

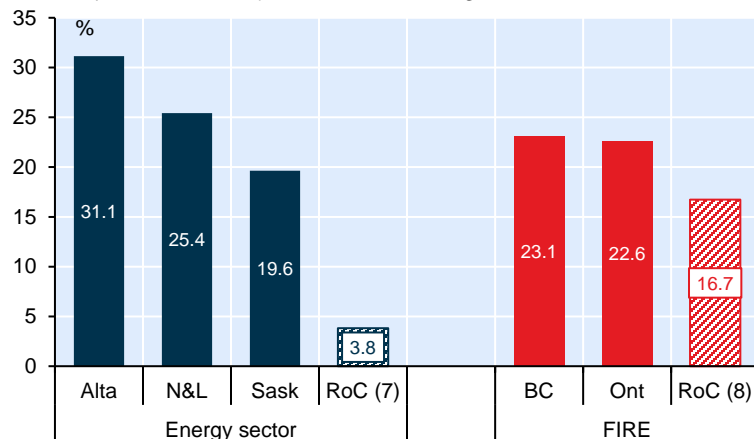
Real GDP growth by province: 2020 to 2022 (incl. cumulative total)



Source: NBF, StatCan | Note: Markers & figures in [] represent total/cumulative growth over full 3Y period (to 2022); ordered by geographic location (west to east)

Chart 3: Notable industry concentrations remain

Share of provincial GDP by select industries/regions: 2022



Source: NBF, StatCan | Note: Rest of Cda (RoC) is simple avg of remaining provinces, where # listed in parenthesis; FIRE refers to finance, insurance + real estate, rental, leasing

Chart 4: Economic diversity begets stable growth (& vice versa)

Economic concentration (proxied by HHI) & variation in real GDP growth



Source: NBF, StatCan | Note: HHI is Herfindahl-Hirschman Index (lower=less concentrated or more diversified); std dev in real GDP growth covers 1998 to 2022 period (i.e., 25Y)

Table: Providing a more detailed look at provincial industry exposure/economic concentration

Share of provincial GDP by industry, ranking industries from most to least important & highlighting relative concentration/ noted exposures: 2022 (%)

| Prov > | BC | Alta | Sask | Man | Ont | Que | NB | NS | PEI | N&L | |
|--|--------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Special agg. | Goods | 26.1 | 46.6 | 50.4 | 28.8 | 22.9 | 27.6 | 26.3 | 19.6 | 27.3 | 46.4 |
| | Service | 74.0 | 53.5 | 49.6 | 71.3 | 77.1 | 72.5 | 73.7 | 80.4 | 72.8 | 53.6 |
| | Ind prod | 13.9 | 36.4 | 34.9 | 17.4 | 14.4 | 18.6 | 15.1 | 10.0 | 13.4 | 38.3 |
| | ICT | 4.6 | 2.7 | 1.9 | 3.2 | 6.7 | 5.3 | 3.6 | 4.5 | 2.9 | 2.5 |
| | Energy | 6.8 | 31.1 | 19.6 | 6.4 | 2.3 | 3.5 | 5.1 | 1.8 | 0.9 | 25.4 |
| Industry rank, ordered by each province (based on NAICS codes 11-91) | #1 | Real est 17.7 | Mng,O&G 26.7 | Mng,O&G 25.3 | Real est 13.1 | Real est 12.6 | Mfg 13.6 | Real est 12.7 | Real est 16.4 | Real est 14.5 | Mng,O&G 32.9 |
| | #2 | Const 10.3 | Real est 10.0 | Ag,for,fish 9.4 | Mfg 10.6 | Mfg 11.0 | Real est 10.5 | Pub admin 11.6 | Pub admin 12.7 | Mfg 12.0 | Real est 8.8 |
| | #3 | Health 7.5 | Const 7.8 | Real est 8.7 | Health 9.7 | Fin,ins 10.0 | Health 9.0 | Mfg 10.9 | Health 10.4 | Pub admin 11.9 | Health 8.6 |
| | #4 | Prof,sci,tch 7.3 | Mfg 7.7 | Mfg 7.1 | Pub admin 8.6 | Prof,sci,tch 8.1 | Pub admin 7.9 | Health 9.9 | Const 7.4 | Health 10.3 | Pub admin 7.6 |
| | #5 | Mfg 6.2 | Health 5.9 | Const 6.2 | Const 6.5 | Const 7.9 | Const 7.8 | Const 7.5 | Mfg 7.3 | Const 7.8 | Const 6.4 |
| | #6 | Pub admin 5.9 | Trans,ware 4.7 | Health 6.2 | Retail 5.8 | Pub admin 7.4 | Prof,sci,tch 7.0 | Retail 6.1 | Retail 6.8 | Retail 6.7 | Retail 5.3 |
| | #7 | Retail 5.4 | Prof,sci,tch 4.7 | Pub admin 5.5 | Edu 5.8 | Health 7.2 | Fin,ins 6.3 | Edu 5.8 | Edu 6.8 | Ag,for,fish 6.2 | Edu 5.3 |
| | #8 | Mng,O&G 5.4 | Pub admin 4.6 | Whole 5.1 | Trans,ware 5.8 | Whole 6.6 | Edu 6.2 | Fin,ins 5.8 | Fin,ins 5.8 | Edu 6.2 | Prof,sci,tch 3.5 |
| | #9 | Fin,ins 5.4 | Whole 4.4 | Retail 4.2 | Fin,ins 5.8 | Edu 5.5 | Retail 5.8 | Trans,ware 4.9 | Prof,sci,tch 5.3 | Fin,ins 4.6 | Mfg 3.4 |
| | #10 | Trans,ware 4.9 | Fin,ins 4.1 | Trans,ware 4.1 | Ag,for,fish 5.2 | Retail 4.6 | Whole 5.6 | Ag,for,fish 4.0 | Whole 3.4 | Prof,sci,tch 3.5 | Fin,ins 3.1 |
| | #11 | Edu 4.8 | Retail 3.8 | Edu 3.9 | Whole 4.5 | Info,cult 3.8 | Trans,ware 4.0 | Whole 3.5 | Trans,ware 3.1 | Trans,ware 3.2 | Trans,ware 2.5 |
| | #12 | Whole 3.9 | Edu 3.5 | Fin,ins 3.7 | Utilities 3.9 | Trans,ware 3.6 | Utilities 3.1 | Prof,sci,tch 3.4 | Info,cult 3.0 | Accom,food 3.0 | Info,cult 2.1 |
| | #13 | Info,cult 2.9 | Ag,for,fish 2.8 | Prof,sci,tch 2.5 | Prof,sci,tch 3.5 | Admin 3.2 | Info,cult 2.7 | Utilities 3.3 | Ag,for,fish 2.5 | Whole 2.3 | Whole 2.0 |
| | #14 | Accom,food 2.8 | Admin 2.1 | Utilities 2.4 | Mng,O&G 2.6 | Oth serv 1.9 | Admin 2.6 | Admin 3.0 | Accom,food 2.3 | Info,cult 2.0 | Ag,for,fish 1.9 |
| | #15 | Admin 2.4 | Info,cult 1.8 | Oth serv 1.5 | Info,cult 2.6 | Utilities 1.8 | Oth serv 2.2 | Info,cult 2.8 | Oth serv 2.1 | Oth serv 2.0 | Utilities 1.9 |
| | #16 | Oth serv 2.2 | Oth serv 1.7 | Info,cult 1.4 | Oth serv 1.9 | Accom,food 1.8 | Accom,food 2.0 | Accom,food 2.0 | Admin 2.0 | Admin 1.7 | Accom,food 1.7 |
| | #17 | Ag,for,fish 2.1 | Accom,food 1.7 | Accom,food 1.3 | Accom,food 1.9 | Mng,O&G 1.1 | Mng,O&G 1.6 | Oth serv 1.8 | Utilities 1.8 | Utilities 1.2 | Oth serv 1.5 |
| | #18 | Utilities 2.0 | Utilities 1.6 | Admin 1.0 | Admin 1.6 | Ag,for,fish 1.1 | Ag,for,fish 1.6 | Mng,O&G 0.7 | Mng,O&G 0.6 | Arts,rec 0.7 | Admin 1.3 |
| | #19 | Arts,rec 0.7 | Arts,rec 0.4 | Arts,rec 0.4 | Arts,rec 0.7 | Arts,rec 0.7 | Arts,rec 0.6 | Arts,rec 0.4 | Arts,rec 0.5 | Mgmt 0.1 | Arts,rec 0.2 |
| | #20 | Mgmt 0.1 | Mgmt 0.1 | Mgmt 0.1 | Mgmt 0.1 | Mgmt 0.1 | Mgmt 0.1 | Mgmt 0.1 | Mgmt 0.1 | Mng,O&G 0.0 | Mgmt 0.1 |
| Concentration | Top 3 | 35.5 | 44.5 | 43.4 | 33.5 | 33.7 | 33.1 | 35.2 | 39.5 | 38.4 | 50.3 |
| | Top 5 | 49.0 | 58.0 | 56.7 | 48.5 | 49.7 | 48.8 | 52.5 | 54.2 | 56.5 | 64.3 |
| | Top 10 | 76.1 | 80.5 | 81.9 | 76.8 | 81.0 | 79.7 | 79.0 | 82.2 | 83.7 | 85.0 |
| | HHI | 7.9 | 11.2 | 10.7 | 7.3 | 7.6 | 7.4 | 7.7 | 8.5 | 8.6 | 14.5 |
| Select exposures (Top 3) | Ag,for,fish | | | ✓ | | | | | | | |
| | Mng,O&G | | ✓ | ✓ | | | | | | | ✓ |
| | Const | ✓ | ✓ | | | | | | | | |
| | Mfg | | | | ✓ | ✓ | ✓ | ✓ | | ✓ | |
| | Fin,ins | | | | | ✓ | | | | | |
| | Real est | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | Public admin | | | | | | | ✓ | ✓ | ✓ | |

Source: NBF, StatCan | Note: For spacing purposes, we have used shortforms for 20 two-digit NAICS industry classifications; refer to StatCan for complete NAICS industry details; re. 'Concentration', Top 3 to Top 10 figures refer to the combined weight of the largest industries in each province; HHI refers to Herfindahl-Hirschman Index value for 2022, where lower scores imply less economic concentration (i.e., greater diversification across industries) & larger scores imply more economic concentration (i.e., less diversification across industries); re. 'Select exposures', checkmarks are meant to identify specific industries comprising a top 3 share of provincial GDP in 2022



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