

Provincial Economic Overview



Blomidon Golf Course, Corner Brook
Dept. of Tourism, Culture and Recreation

Newfoundland and Labrador recorded a solid economic performance in 2008 with all major economic indicators recording increases over 2007. Real GDP grew by an estimated 1.8%, due to strong consumer and government spending.

Consumer spending posted impressive growth in 2008. Retail sales totalled \$7.1 billion, an increase of 7.7% compared to 2007. Car sales were an important contributor to retail sales growth last year. The number of new cars sold in the province was 31,450, 11.3% higher than 2007. Increased housing starts also led to higher sales of furniture, electronics and building supplies. Consumption growth was fuelled by three consecutive years of strong gains in disposable income, increased employment and high levels of consumer confidence.

Capital investment rose by 3.3% last year, largely on the strength of a robust housing market. Residential investment grew by 20.8% to \$1.4 billion, stemming primarily from a substantial increase in new housing. Housing starts totalled 3,261 in 2008, an increase of 23.1%. Higher capital spending was also recorded in the public sector. Public sector capital expenditures rose by 13.9% in 2008, reflecting the provincial government's capital infrastructure program. While the oil and mining industries continued to invest significantly (over \$1 billion), spending in these industries was down in 2008 compared to 2007.

Real exports in 2008 were on par with 2007 as increased mineral exports offset a decline in oil exports. Mineral production was boosted by higher iron ore production from the Iron Ore Company of Canada (IOC) and increased nickel production from Voisey's Bay. Oil production declined by 6.9%

compared to 2007 due to natural depletion of field reserves. While the real value of exports stayed about the same as 2007, the nominal value of exports increased substantially as record high commodity prices were realized throughout much of 2008. This translated into strong growth in nominal GDP last year.

Labour Markets

Throughout most of the year labour market conditions in the province were strong, however, some evidence of weakness began to emerge late in the year. Employment trended upward over the first 10 months of 2008. However, in November employment was flat and job losses were recorded in December. Nevertheless, labour market performance in 2008 was positive. Employment averaged 220,300, an increase of 1.5% compared to 2007. Job gains were concentrated in full-time employment and occurred mainly in the construction and public administration industries. In addition to employment gains, growth was recorded in the labour force as good job prospects enticed more people to look for work. The unemployment rate declined to 13.2% in 2008—the lowest unemployment rate in the province since the 1970s.

Wages continued to increase at a solid pace last year. Average weekly earnings (including overtime) rose by 3.8% to \$741. Gains in weekly wages, combined with employment growth, resulted in a 6.4% increase in labour income. After adjusting for inflation, labour income grew by 3.5%. Personal income is estimated to have grown by 5.2% last year (2.3% in real terms). Personal disposable income growth was stronger (5.8%) due to tax cuts at both the provincial and federal levels.

Economic Indicators

	2008e	2009f	2010f	2011f	2012f
GDP at Market Prices (\$M)	32,481	23,140	26,526	30,429	30,284
% Change	13.8	-28.8	14.6	14.7	-0.5
% Change, real	1.8	-7.7	1.7	1.3	0.2
% Change, real adjusted*	3.2	-1.3	3.5	2.6	-0.1
Personal Income (\$M)	15,499	15,963	16,643	17,341	17,828
% Change	5.2	3.0	4.3	4.2	2.8
% Change, real	2.3	2.0	2.2	2.3	1.1
Personal Disposable Income (\$M)	12,341	12,798	13,274	13,824	14,213
% Change	5.8	3.7	3.7	4.1	2.8
% Change, real	2.9	2.7	1.7	2.3	1.1
Retail Sales (\$M)	7,073	7,158	7,419	7,645	7,796
% Change	7.7	1.2	3.6	3.1	2.0
% Change, real	5.5	-0.2	2.4	2.1	1.0
Consumer Price Index (2002=100)	114.3	115.4	117.7	119.8	121.9
% Change	2.9	1.0	2.0	1.8	1.7
Capital Investment (\$M)	4,357	4,768	6,036	5,744	5,306
% Change	3.3	9.4	26.6	-4.8	-7.6
% Change, real	-1.8	6.8	22.3	-3.4	-8.7
Housing Starts (Units)	3,261	2,648	2,570	2,502	2,423
% Change	23.1	-18.8	-2.9	-2.6	-3.2
Employment (000s)	220.3	218.1	221.3	225.2	225.4
% Change	1.5	-1.0	1.4	1.8	0.1
Labour Force (000s)	253.8	254.1	256.5	258.9	258.2
% Change	1.0	0.1	0.9	0.9	-0.3
Unemployment Rate (%)	13.2	14.2	13.7	13.0	12.7
Population (000s)	507.9	510.2	511.6	512.3	512.5
% Change	0.3	0.5	0.3	0.1	0.1

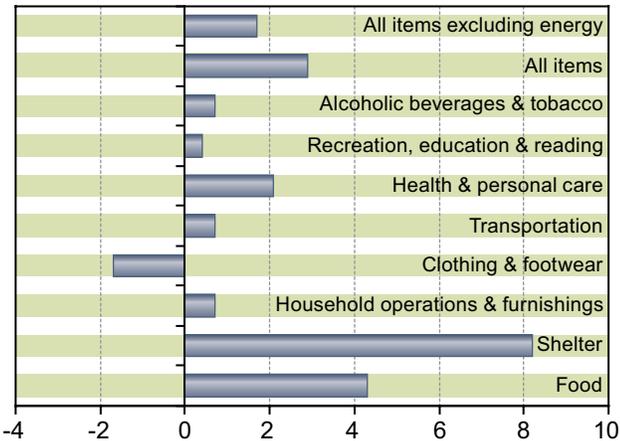
* Adjusted GDP excludes production related income earned by the non-resident owners of provincial mega-projects (oil projects and Voisey's Bay) to better reflect growth in economic activity that generates income for residents.

Note: 2008 stated growth rates for GDP, personal income and personal disposable income have been calculated on adjusted 2007 figures. The 2007 data for these indicators were adjusted to remove the provincial government's special payments to public sector plans.

e: estimate; f: forecast, Department of Finance, March 2009

Source: Statistics Canada; Department of Finance

Percent Change in CPI by Component, 2008



Source: Statistics Canada; Department of Finance

Prices

Consumer prices increased by 2.9% in 2008. The increase in the Consumer Price Index (CPI) was caused primarily by a major increase in the price of energy, as evidenced by the large hike in the CPI for shelter (impacted by home heating fuel costs). Higher food prices also boosted inflation last year. While overall energy prices were much higher last year, prices began to decline late in the year as the price of crude oil fell.

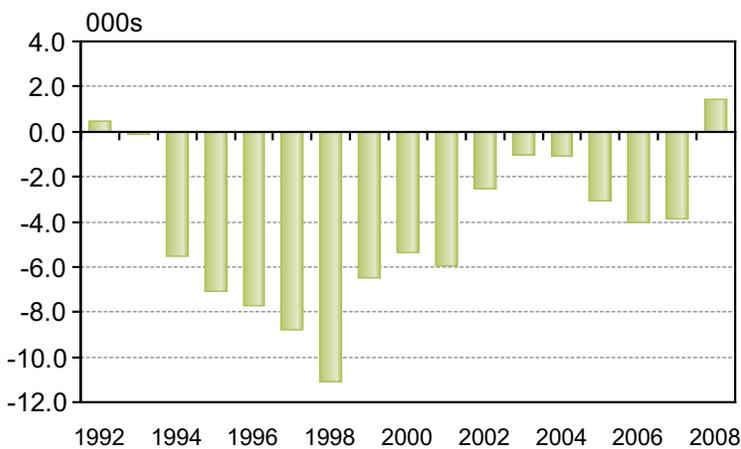
Population

Newfoundland and Labrador's population stood at 507,895 as of July 1, 2008, an increase of 0.3% compared to July 1, 2007. This was the first time in 16 years that the province recorded an increase in population.

Population growth was the result of positive net-migration of about 1,700 which offset a natural decline in population (i.e., more deaths than births) of almost 280. Last year marked the first significant net in-migration to the province in 25 years (there was a very small net gain of 13 in 1990-91). Several years of strong economic growth have provided support for in-migration to the province.

Natural population change has been negative for the last two years. Because of the province's relatively low fertility rate and aging population, it is unlikely that natural population change will contribute significantly to population growth. Given this, population growth in the future will most likely depend on migration to the province.

Population Change



Source: Statistics Canada; Department of Finance

Outlook for 2009

2009 will be a challenging year for most industrialized economies and Newfoundland and Labrador will be no exception. The global economic slowdown has already impacted some sectors in the province. Several mining companies have announced plans to reduce production, take temporary shutdowns and/or layoff employees. The newsprint industry has been hit by the closure of AbitibiBowater's Grand Falls-Windsor mill and a production cut at Kruger's Corner Brook mill. While the fishery is now only gearing up for the season, the possibility of lower demand may impact prices in this industry.

Overall, real GDP is expected to decline by 7.7% in 2009. This drop is largely the result of a decline in exports, particularly oil, minerals and newsprint. Decreases in mineral and newsprint exports are directly related to the world economic downturn, however, the decline in oil production is due primarily to the natural depletion of reserves.

While the decline in GDP is notable, other economic indicators are expected to either post modest increases or only slight declines. Employment is expected to fall by 1.0% as layoffs in the resource sector trickle through the economy. Despite the decline in employment, the labour force is expected to increase slightly and this will cause the unemployment rate to rise to 14.2%. Notwithstanding employment losses, personal income is expected to rise by 3.0% as retroactive pay increases for a large segment of the public sector are paid and negotiated wage increases take place. In addition, the minimum wage increased to \$8.50 per hour on January 1, 2009 and is set to increase to \$9.00 per hour on July 1, 2009. Growth in retail sales is expected to slow from the rapid pace of the last two years but is still expected to be positive at 1.2%. Housing starts are forecast to be 2,648, down 18.8% over 2008 but still high in a historical context.

Capital investment growth is expected to be strong in 2009. Investment is expected to increase by 9.4%, due to increased major project investment (mainly on the nickel processing facility at Long Harbour and the White Rose expansion) and increased provincial government infrastructure spending.

Beyond 2009

The global economic recession is expected to reach bottom in 2009 and recovery should begin late this year and continue in 2010. Real GDP is forecast to increase by 1.7% in 2010 as a rebound in mineral production and increased construction activity on the nickel processing facility more than offset a slight decline in oil production. Employment is expected to grow by 1.4% in 2010 as major project construction ramps up and the service sector continues to expand. Personal and disposable income are forecast to grow by 4.3% and 3.7%, respectively, as a result of continued wage gains and employment growth. Capital investment is expected to hit a record high in 2010 due to increased expenditures on the Vale Inco nickel facility.

Over the 2011-2012 period, real GDP is projected to show modest growth and other economic indicators such as employment and personal income

are expected to post solid growth as activity related to the Hebron development begins to ramp up.

Economic Performance in 2009 Some Considerations

Real GDP is expected to decline by 7.7% in 2009 as a result of a reduction in exports. Yet, many other economic indicators for the province such as employment and income are expected to show only modest declines or slight increases. This underscores the importance of considering several key indicators when gauging the province's economic performance as opposed to focussing solely on GDP.

GDP is the value of goods and services produced within the province. It is the sum of consumption, investment, government expenditures, and net exports (exports minus imports). Exports are the single largest component of GDP in this province and have been the largest contributor to recent GDP growth. It is estimated that around 65% of GDP growth over the past decade has been due to exports. Export growth has been largely driven by oil since production started in 1997, and as a result, large swings in oil production from one year to the next can produce significant swings in exports and, consequently, GDP.

However, in Newfoundland and Labrador's economy, changes in GDP each year do not necessarily translate into similar changes in other economic indicators such as employment and income. This is partly due to the fact that employment in the oil industry is not nearly as volatile as oil production. Furthermore, the most significant impact that the oil industry has on the domestic economy is through the employment and labour income generated by production. This was evident in 2004 when oil production and real GDP decreased while employment in oil production remained stable and total employment in the province actually increased by about 1% (see table). In 2007, oil production increased by 21.3% which led to 9.1% growth in real GDP. Again however, employment on the oil projects remained stable and total employment in the province increased by only 0.6%—a smaller increase than 2004 when real GDP actually declined. These are important results to remember when looking at 2009 forecast data.

In the current forecast, real GDP is expected to contract by 7.7% in 2009 because of lower commodity production including oil. However, employment in the oil industry is expected to remain stable and only a modest (1.0%) decline is expected in total employment in the province. Labour income is forecast to rise by 3.2% due to recent wage settlements and increases in the minimum wage. In summary, many indicators currently point to a better economic performance this year than suggested by the GDP forecast.

Annual % Change in Selected Economic Indicators

	2004	2007	2009
Oil production	-6.7%	21.3%	-21.4%
Real GDP	-1.2%	9.1%	-7.7%
Employment	0.9%	0.6%	-1.0%
Personal income	3.4%	5.9%	3.0%